

Daviess County School District

Basic Financial Statements, Supplementary Information and Independent Auditors' Report

June 30, 2003



DAVIESS COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee For School District Audits
Members of the Board of Education
Daviness County School District
Owensboro, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Daviness County School District as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the accompanying table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Guide for Auditing Local School Districts' Fiscal Records*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note B to the financial statements, the District changed its method of financial statement presentation and disclosure when it adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments, and related standards, as of July 1, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2003, on our consideration of Daviess County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Schedules for the general fund and special revenue fund are not a required part of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. We applied certain limited procedures which consisted principally of inquiries of management regarding the measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was made for the purpose of forming opinions on the financial statements taken as a whole, that collectively comprise the Daviess County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and other schedules listed in the Table of Contents are also presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the District's basic financial statements taken as a whole.

October 20, 2003

DAVIESS COUNTY BOARD OF EDUCATION
DAVIESS COUNTY SCHOOL DISTRICT

**Management's Discussion and Analysis
for the fiscal year ended June 30, 2003**

The discussion and analysis of Daviess County Public School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to review the school district's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* issued in June 1999. Comparative figures are not available for the prior year since 2002-03 is the first year of reporting under GASB 34. MD&A will include comparative information in future years.

Financial Highlights

- In total, net assets are \$33,183,869. Net assets of governmental activities are \$31,212,560, including \$26,368,481 invested in capital assets, net of related debt, \$412,784 restricted for capital projects and construction and \$167,794 restricted for other purposes, and \$4,263,501 of unrestricted net assets. Net assets of business-type activities are \$1,971,309 including \$470,899 invested in capital assets, net of related debt and \$1,500,410 of unrestricted net assets.
- As indicated above, \$412,784 of net assets of governmental activities is restricted for capital projects and construction while the other \$167,794 of restricted net assets is restricted for site-based councils, and technology expenditures. Other known items that commit net assets are the bonded debt and lease obligations explained in Note G to the audited financial statements on pages 33-35 and the commitments under non-capitalized leases explained in Note K to the audited financial statements on page 37.
- Total assets of governmental activities are \$77,445,698. Capital assets are \$64,467,675 while cash and investments are \$10,244,043. Total assets of business type activities are \$2,098,484. Capital assets are \$470,899 while cash and investments are \$1,376,345.
- Total liabilities are \$46,360,313. Liabilities for governmental activities include \$9,954,888 of current liabilities such as accounts payable, accrued payroll, short-term debt, and other current accruals. Also included is \$36,278,250 of long-term liabilities including \$35,168,813 of long-term debt, \$1,063,690 of accrued sick leave due in more than one year and \$45,747 of notes payable due in more than one year. All \$127,175 of liabilities of business-type activities is current liabilities.
- General revenues accounted for \$61,365,489 in revenue or 78 percent of total revenues. Program specific revenues in the form of grants and contributions accounted for \$17,197,603 or 22% of total revenues of \$78,563,092.

**DAVIESS COUNTY BOARD OF EDUCATION
DAVIESS COUNTY SCHOOL DISTRICT**

**Management's Discussion and Analysis
for the fiscal year ended June 30, 2003**

- The School District had \$71,376,736 in expenses related to governmental activities; only \$12,056,828 of these expenses was offset by program specific charges for services, grants, and contributions. General revenues (primarily local taxes and state SEEK allocations), and sale of construction bonds were adequate to provide these programs.
- Construction continued during the year with an addition at Deer Park Elementary School and an Early Learning Center at Audubon Elementary School, which both opened in August of 2003. Construction began on the new Meadow Lands Elementary School that will open in August of 2004. These additions totaled \$1,790,913 of Construction in Progress at June 30, 2003.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Daviess County Public School District as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The **Statement of Net Assets and Statement of Activities** provide information about the activities of the whole school district, presenting both an aggregate view of the school district's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the school district's major funds with all other non-major funds presented in total in one column. The major funds for the Daviess County School District are the general fund, special revenue fund and the debt service fund.

Reporting the School District as a Whole

One of the most important questions asked about the school district is "how did we do financially during 2002-03?" The **Statement of Net Assets** and the **Statement of Activities**, which appear first in the school district's financial statements, report information on the school district as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received and paid.

These two statements report the school district's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the school district as a whole, the financial position of the school district has improved or diminished. However, the school district's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the school district's property tax base, current property tax laws in Kentucky restricting revenue growth, required educational programs and other factors.

DAVIESS COUNTY BOARD OF EDUCATION
DAVIESS COUNTY SCHOOL DISTRICT

**Management's Discussion and Analysis
for the fiscal year ended June 30, 2003**

In the **Statement of Net Assets** and the **Statements of Activities**, the school district is divided into two distinct kinds of activities:

Government Activities - most of the school district's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and other activities.

Business-type Activities - these services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The school district's food service operation and after school programs are reported as business activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the school district's major funds begins on page 12 . Fund financial reports provide detailed information about the school district's major funds. The school district uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the school district's major funds.

Governmental Funds - most of the school district's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the school district's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds - proprietary funds use the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund will essentially match.

Governmental Activities

Instruction comprises 66% of governmental program expenses. Support services expenses make up 31% of government expenses and interest on long-term debt was 3%.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 1 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

DAVIESS COUNTY BOARD OF EDUCATION
DAVIESS COUNTY SCHOOL DISTRICT

Management's Discussion and Analysis
for the fiscal year ended June 30, 2003

(Table 1)
Governmental Activities

	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Instruction	\$47,197,132	\$39,600,138
Support Services	22,184,850	20,944,562
Facility Acquisition/Construction	-	(2,874,561)
Interest on Long-Term Debt	<u>1,994,754</u>	<u>1,649,769</u>
Total Expenses	<u>\$71,376,736</u>	<u>\$59,319,908</u>

Business-Type Activities

The only business-type activities are the food service operation and the after school programs. Food Service had total revenues of \$4,480,328 and total expenses of \$4,500,510 for fiscal year 2003. Of the revenues, \$2,341,493 was charges for services, \$2,118,704 was from State and Federal grants, \$17,073 from investment earnings and the remaining \$3,058 was gain on disposal of equipment. After school programs had total revenues of \$717,244 and total expenses of \$776,016 for fiscal year 2003. Of the revenues, \$649,677 was charges for services, \$61,642 was from State and Federal grants, \$5,925 from investment earnings. Business activities receive no support from tax revenues. The school district will continue to monitor the charges and costs of these activities. If it becomes necessary, the school district will increase the charges for these activities.

The School District's Funds

Information about the school district's major funds is on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$73,139,243 and expenditures of \$74,985,596. Net changes in fund balances for the year was most significant in the General Fund (\$989,561) and (\$673,532) in other governmental funds. The decrease in other governmental funds is due to spending on construction projects. The decrease in the General Fund was due to one-time expenditures from non-recurring funds.

General Fund-Budget Highlights

The School District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The State Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process.

**DAVIESS COUNTY BOARD OF EDUCATION
DAVIESS COUNTY SCHOOL DISTRICT**

**Management's Discussion and Analysis
for the fiscal year ended June 30, 2003**

Variance comparisons are presented between the final budgeted amounts and the actual (GAAP Basis) amounts beginning on page 43. For the General Fund revenues were budgeted at \$49,157,076 with actual amounts of \$48,915,822. Budgeted expenditures of \$55,156,833 compare with actual expenditures of \$49,830,746. A variance of \$5,326,087 remains. Of this difference, \$3,000,000 was the budgeted contingency expense.

Debt

At June 30, 2003 the school district had \$38,480,000 in bonds outstanding, of this amount \$7,110,310 are to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$2,965,000 is due within one year.

At June 30, 2002 the school district had \$40,805,000 in bonds outstanding, including those to be paid from KSFCC funding. The decrease during the 2003 fiscal year of \$2,325,000 is due to the scheduled debt service bond payments.

District Challenges for the Future

Daviess County Public School District's financial status is currently stable but at risk due to the potential continuing loss of state funding in subsequent years. This is the result of two major factors, continued student growth without increased state funding for the growth, and a general decrease in the percentage of state funding. Because of these issues, the long-term financial picture could prove very problematic, and is the most pressing issue for our District.

The school district has experienced an annual growth in student enrollment of approximately 100 students per year, for the last three years. The school district has prepared for an increase in enrollment by building new schools and renovating and adding to existing schools. These new facilities come with increased utility costs and additional personnel cost (both administrative and support staffs). These new buildings also have a cost for computers, library books, instructional materials, and other items that can only be paid from the General Fund. These costs along with the need to add additional buildings in the next few years will create more challenges for the school district.

The costs associated with growth have in the past been offset due to increased student enrollment producing additional state funding, and continued increases in business and residential property subject to tax within the school district. Our property tax base continues to grow; however our school district, like all Kentucky school districts, is limited to a 4% annual growth in property tax revenue on existing property.

The second factor facing our school district is that of adequate state funding. We have been informed of a possible 5-7% additional SEEK reduction before the end of fiscal 2003-2004. The emergency-funding plan our state is operating under required all school districts to provide a 2.7% increase in salaries to all certified personnel for the 2003-2004 fiscal year. If unfunded mandates from the state continue in future years, a severe strain will be placed on the district's resources. The district maintains a contingency plan to deal with state funding shortfalls but this will only be effective in the short term. A long-term solution at the state level must be determined and enacted by the state legislature to ensure adequate funding for public education.

DAVIESS COUNTY BOARD OF EDUCATION
DAVIESS COUNTY SCHOOL DISTRICT

Management's Discussion and Analysis
for the fiscal year ended June 30, 2003

(Table 2)
Net Assets

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Totals</u>
	<u>2003</u>	<u>2003</u>	<u>2003</u>
Program Revenues:			
Charges for Services	624,743	2,960,429	3,585,172
Operating Grants/Contribution	7,888,732	2,180,346	10,069,078
Capital Grants/Contribution	3,543,353		3,543,353
Total Program Revenues	<u>12,056,828</u>	<u>5,140,775</u>	<u>17,197,603</u>
General Revenues:			
Taxes	19,038,787		19,038,787
State Aid-formula grants	41,478,212		41,478,212
Investment Earnings	620,378	22,998	643,376
Miscellaneous	172,028	30,741	202,769
Gain (Loss) on sale of equipment	(713)	3,058	2,345
Total General Revenues	<u>61,308,692</u>	<u>56,797</u>	<u>61,365,489</u>
Total Revenue and Transfers	<u>73,365,520</u>	<u>5,197,572</u>	<u>78,563,092</u>
Program Expenses			
Instruction	47,197,132		47,197,132
Support Services:			
Student	2,158,024		2,158,024
Instructional Staff	1,882,636		1,882,636
District Administration	538,157		538,157
School Administration	3,697,769		3,697,769
Business	839,360		839,360
Facility Operations/Maintenance	6,423,613		6,423,613
Student Transportation	5,225,132		5,225,132
Central Office	593,225		593,225
Community Service	826,934		826,934
Interest on Long-Term Debt	1,994,754		1,994,754
After School Programs		776,016	776,016
Food Service		4,500,510	4,500,510
Transfers	(10,645)	10,645	-
Total Expense and Transfers	<u>71,366,091</u>	<u>5,287,171</u>	<u>76,653,262</u>
Increase (Decrease) in Net Assets	<u>1,999,429</u>	<u>(89,599)</u>	<u>1,909,830</u>

DAVIESS COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2003

	Governmental Activities	Business- type Activities	Total
Assets			
Cash and cash equivalents	\$ 259,146	\$ 1,376,345	\$1,635,491
Investments	9,984,897	-	9,984,897
Accounts receivable (net)			
Taxes - current	311,148	-	311,148
Taxes - delinquent	365,268	-	365,268
Taxes - other	107,409	-	107,409
Accounts	256,100	80,299	336,399
Interest	51,567	-	51,567
Intergovernmental - state	126,196	-	126,196
Intergovernmental - federal	922,184	-	922,184
Due from other funds	-	50,550	50,550
Inventories	287,879	120,391	408,270
Prepays and other assets	256,202	-	256,202
Debt issuance costs, net of accumulated amortization	50,027	-	50,027
Capital assets, net of accumulated depreciation	64,467,675	470,899	64,938,574
Total Assets	77,445,698	2,098,484	79,544,182
Liabilities			
Accounts payable	888,822	107,635	996,457
Student prepaid lunches	-	19,540	19,540
Due to other funds	50,550	-	50,550
Accrued payroll and related liabilities	4,763,878	-	4,763,878
Accrued vacation pay, due within one year	145,919	-	145,919
Other accrued liabilities	242,912	-	242,912
Deferred revenue	631,930	-	631,930
Note payable:			
Due within one year	30,496	-	30,496
Due in more than one year	45,747	-	45,747
School building revenue bonds:			
Due within one year	2,930,381	-	2,930,381
Due in more than one year	35,168,813	-	35,168,813
Accrued sick leave:			
Due within one year	270,000	-	270,000
Due in more than one year	1,063,690	-	1,063,690
Total Liabilities	46,233,138	127,175	46,360,313
Net Assets			
Invested in capital assets, net of related debt	26,368,481	470,899	26,839,380
Restricted for:			
Capital projects and construction	412,784	-	412,784
Other purposes	167,794	-	167,794
Unrestricted	4,263,501	1,500,410	5,763,911
Total Net Assets	\$ 31,212,560	\$ 1,971,309	\$33,183,869

The accompanying notes are an integral part
of the basic financial statements.

DAVIESS COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2003

	Total District- wide Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Functions/Programs					
Governmental activities					
Instruction	\$47,197,132	\$ 253,743	\$ 5,610,283	\$ -	\$(41,333,106)
Support services:					
Student	2,158,024	-	154,671	-	(2,003,353)
Instructional staff	1,882,636	-	1,105,923	-	(776,713)
District admin- istration	538,157	-	24,392	-	(513,765)
School administra- tion	3,697,769	-	155,635	-	(3,542,134)
Business	839,360	-	-	-	(839,360)
Plant operations and maintenance	6,423,613	-	7,910	-	(6,415,703)
Student trans- portation	5,225,132	371,000	179,340	-	(4,674,792)
Central office	593,225	-	-	-	(593,225)
Community service Facilities	826,934	-	650,578	-	(176,356)
acquisition and construction	-	-	-	3,198,368	3,198,368
Interest expense	1,994,754	-	-	344,985	(1,649,769)
 Total govern- mental activities	 71,376,736	 624,743	 7,888,732	 3,543,353	 (59,319,908)
Business-type activities					
School food services	4,500,510	2,313,696	2,118,704	-	(68,110)
After school program	776,016	646,733	61,642	-	(67,641)
 Total business- type activities	 5,276,526	 2,960,429	 2,180,346	 -	 (135,751)
Total activities	\$76,653,262	\$ 3,585,172	\$10,069,078	\$ 3,543,353	\$(59,455,659)

Continued

DAVIESS COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES, Continued
Year ended June 30, 2003

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Changes in net assets:			
Net (expense) revenue	<u>\$(59,319,908)</u>	<u>\$(135,751)</u>	<u>\$(59,455,659)</u>
General revenues:			
Taxes:			
Property	13,750,056	-	13,750,056
Motor vehicle	1,619,659	-	1,619,659
Delinquent	252,282	-	252,282
Distilled spirits	80,920	-	80,920
Public service company	690,998	-	690,998
Utilities	2,644,872	-	2,644,872
State sources:			
SEEK program - formula grant	31,797,290	-	31,797,290
On-behalf fringe benefit payments	9,631,713	-	9,631,713
Other state revenues	49,209	-	49,209
Loss on sale of assets	(713)	3,058	2,345
Interest and investment earnings	620,378	22,998	643,376
Miscellaneous	172,028	30,741	202,769
Total general revenues	61,308,692	56,797	61,365,489
Transfers	10,645	(10,645)	-
	<u>61,319,337</u>	<u>46,152</u>	<u>61,365,489</u>
Change in net assets	<u>1,999,429</u>	<u>(89,599)</u>	<u>1,909,830</u>
Net assets, beginning of year	<u>29,213,131</u>	<u>2,060,908</u>	<u>31,274,039</u>
Net assets, end of year	<u><u>\$31,212,560</u></u>	<u><u>\$1,971,309</u></u>	<u><u>\$33,183,869</u></u>

The accompanying notes are an integral part
of the basic financial statements.

DAVIESS COUNTY SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2003

	General Fund	Special Revenue (Grant) Funds	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 259,146	\$ -	\$ -	\$ 259,146
Investments	9,984,897	-	-	9,984,897
Accounts receivable (net):				
Taxes-current	311,148	-	-	311,148
Taxes-delinquent	365,268	-	-	365,268
Taxes-other	107,409	-	-	107,409
Accounts	249,642	6,458	-	256,100
Intergovernmental-state	-	126,196	-	126,196
Intergovernmental- Federal	-	922,184	-	922,184
Inventories	287,879	-	-	287,879
Prepays and other assets	256,202	-	-	256,202
Due from other funds	376,854	-	1,293,746	1,670,600
	<u>\$12,198,445</u>	<u>\$1,054,838</u>	<u>\$ 1,293,746</u>	<u>\$ 14,547,029</u>
Total assets				
	<u>\$12,198,445</u>	<u>\$1,054,838</u>	<u>\$ 1,293,746</u>	<u>\$ 14,547,029</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 179,183	\$ 20,223	\$ 689,416	\$ 888,822
Due to other funds	1,152,750	376,854	191,546	1,721,150
Accrued payroll and related liabilities	4,763,878	-	-	4,763,878
Deferred revenue	389,459	631,930	-	1,021,389
	<u>6,485,270</u>	<u>1,029,007</u>	<u>880,962</u>	<u>8,395,239</u>
Total liabilities				
	<u>6,485,270</u>	<u>1,029,007</u>	<u>880,962</u>	<u>8,395,239</u>
Fund balances				
Reserved for:				
Inventories	287,879	-	-	287,879
Encumbrances	414,786	8,488	412,784	836,058
Technology	-	17,343	-	17,343
Site based councils	141,963	-	-	141,963
Unreserved	4,868,547	-	-	4,868,547
	<u>5,713,175</u>	<u>25,831</u>	<u>412,784</u>	<u>6,151,790</u>
Total fund balances				
	<u>5,713,175</u>	<u>25,831</u>	<u>412,784</u>	<u>6,151,790</u>
Total liabilities and fund balances				
	<u>\$12,198,445</u>	<u>\$1,054,838</u>	<u>\$1,293,746</u>	<u>\$14,547,029</u>

The accompany notes are an integral part
of the basic financial statements.

DAVIESS COUNTY SCHOOL DISTRICT

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2003

Total governmental fund balance per fund financial statements	\$ 6,151,790
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	64,467,675
---	------------

Other assets not available to pay for current expenditures and therefore are not reported as receivables in the funds:

Accrued interest receivable	51,567
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Other long-term assts are not available to pay for current period expenditures and therefore are deferred in the funds:

Property taxes receivable	389,459
---------------------------	---------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

Accrued interest payable	(242,912)
Accrued compensated absences	(1,479,609)
Note payable	(76,243)
Bonds payable	(38,480,000)
Issuance discount (to be amortized as interest expense)	15,436
Deferred charge for issuance costs (to be amortized over life of debt)	50,027
Deferred charge on refunding (to be amortized as interest expense)	365,370

Net assets of governmental activities	<u>\$31,212,560</u>
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DAVIESS COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
for the year ended June 30, 2003

	GOVERNMENTAL FUND TYPES				TOTAL GOVERNMENTAL FUNDS
	GENERAL FUND	SPECIAL REVENUE (GRANT) FUNDS	DEBT SERVICE FUND	OTHER GOVERN- MENTAL FUNDS	
Revenues:					
From local sources:					
Taxes:					
Property	\$10,978,153	\$ -	\$ -	\$2,771,903	\$13,750,056
Motor vehicle	1,291,895	-	-	327,764	1,619,659
Delinquent	76,857	-	-	-	76,857
Distilled spirits	64,634	-	-	16,286	80,920
Public service company	573,895	-	-	117,103	690,998
Utilities	2,644,872	-	-	-	2,644,872
Tuition and fees	89,747	37,927	-	-	127,674
Earnings on investments	549,782	-	-	19,029	568,811
Other local revenues	810,195	96,892	-	-	907,087
Intergovernmental - state	41,467,505	3,936,145	1,305,137	1,914,409	48,623,196
Intergovt.- indirect federal	-	3,829,664	-	-	3,829,664
Intergovt.- direct federal	-	219,449	-	-	219,449
Total revenues	58,547,535	8,120,077	1,305,137	5,166,494	73,139,243
Expenditures:					
Current:					
Instruction	37,739,181	7,418,258	-	-	45,157,439
Support services:					
Student	2,157,663	-	-	-	2,157,663
Instructional staff	1,882,636	-	-	-	1,882,636
District administration	441,665	24,392	-	-	466,057
School administration	3,690,701	7,068	-	-	3,697,769
Business	839,360	-	-	-	839,360
Plant operations and maintenance	6,463,440	7,910	-	-	6,471,350
Student transportation	5,414,125	179,340	-	-	5,593,465
Central office	593,225	-	-	-	593,225
Community service	176,356	650,578	-	-	826,934
Facilities acquisition and construction	64,107	-	-	2,359,174	2,423,281
Debt service:					
Principal	-	-	2,827,514	-	2,827,514
Interest	-	-	1,994,328	-	1,994,328
Debt issuance costs	-	-	54,575	-	54,575
Total expenditures	59,462,459	8,287,546	4,876,417	2,359,174	74,985,596
Excess (deficit) of revenues over expenditures	(914,924)	(167,469)	(3,571,280)	2,807,320	(1,846,353)
Other financing sources (uses):					
Proceeds-sale of fixed assets	370	-	-	-	370
Proceeds of refunding bonds	-	-	5,315,000	-	5,315,000
Payment to refund bond escrow	-	-	(5,243,586)	-	(5,243,586)
Discount on refunded bond	-	-	(16,839)	-	(16,839)
Operating transfers in	-	75,007	3,491,496	1,470,812	5,037,315
Operating transfers out	(75,007)	-	-	(4,951,664)	(5,026,671)
Total other financing sources (uses)	(74,637)	75,007	3,546,071	(3,480,852)	65,589
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(989,561)	(92,462)	(25,209)	(673,532)	(1,780,764)
Fund balance, July 1, 2002, as restated	6,702,736	118,293	25,209	1,086,316	7,932,554
Fund balance, June 30, 2003	\$ 5,713,175	\$ 25,831	\$ -	\$ 412,784	\$ 6,151,790

The accompanying notes are an integral part
of the basic financial statements.

DAVIESS COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

for the year ended June 30, 2003

Net change in fund balances - total governmental funds \$(1,780,764)

Amounts reported for governmental activities in the statement of
activities are different because:

Government funds report capital outlay as
expenditures. However, in the statement of
activities, the cost of those assets is allocated
over their estimated useful lives as depreciation
expense. This is the amount by which capital
outlays exceeded depreciation in the current
period. 700,003

Governmental funds only report the disposal of
fixed assets to the extent proceeds are received
from the sale. In the statement of activities, a
gain or loss is reported for each disposal. (1,083)

The issuance of long-term debt provides current
financial resources to governmental funds, while
the repayment of the principal of long-term debt
consumes the current financial resources of
governmental funds. Neither transaction,
however, has any effect on net assets. Also,
governmental funds report the effect of issuance
costs, premiums, discounts, and similar items
when debt is first issued, whereas these amounts
are deferred and amortized in the statement of
activities. This amount is the net effect of
these differences in the treatment of long-term
debt and related items. 2,856,731

Interest on long-term debt in the statement of activities
differs from the amount reported in the governmental
funds because interest is recorded as an expenditure in
the funds when it is due, and thus requires the use of
current financial resources. In the statement of
activities, however, interest expense is recognized as
the interest accrues, regardless of when it is due. (34,193)

Some revenues reported in the statement of
activities, such as taxes receivable, do not provide
current financial resources and are deferred in the
governmental funds. 175,425

Some revenues such as interest receivable are not reported
in the governmental funds. 51,567

Some expenses reported in the statement of
activities, such as compensated absences do not
require the use of current financial resources
and therefore are not reported as expenditures in
governmental funds. 31,743

Change in net assets of governmental activities \$ 1,999,429

The accompanying notes are an integral part
of the basic financial statements.

DAVIESS COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
PROPRIETARY FUND

June 30, 2003

	SCHOOL FOOD SERVICES	OTHER ENTERPRISE FUND AFTER SCHOOL PROGRAM	TOTAL
Assets:			
Current assets:			
Cash and cash equivalents	\$ 1,103,910	\$ 272,435	\$1,376,345
Accounts receivable	72,751	7,548	80,299
Due from other funds	50,550	-	50,550
Inventories for consumption	120,391	-	120,391
Total current assets	1,347,602	279,983	1,627,585
Noncurrent assets:			
Equipment, net of depreciation	446,531	24,368	470,899
Total assets	\$ 1,794,133	\$ 304,351	\$2,098,484
Liabilities			
Current liabilities:			
Accounts payable	\$ 85,941	\$ 21,694	\$ 107,635
Student prepaid lunches	19,540	-	19,540
Total liabilities	105,481	21,694	127,175
Net assets:			
Invested in capital assets net of related debt	446,531	24,368	470,899
Unrestricted	1,242,121	258,289	1,500,410
Total net assets	\$1,688,652	\$ 282,657	\$1,971,309

The accompanying notes are an integral part
of the basic financial statements.

DAVIESS COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

PROPRIETARY FUNDS

for the year ended June 30, 2002

	SCHOOL FOOD SERVICES	OTHER ENTERPRISE FUND AFTER SCHOOL PROGRAM	TOTAL
Operating revenues:			
Lunchroom sales	\$2,313,696	\$ -	\$2,313,696
After school fees	-	646,733	646,733
Other operating revenues	27,797	2,944	30,741
Total operating revenues	2,341,493	649,677	2,991,170
Operating expenses:			
Salaries, wages, and benefits	1,883,034	545,049	2,428,083
Materials and supplies	2,344,416	171,751	2,516,167
Depreciation	103,221	4,358	107,579
Other operating expenses	169,839	54,858	224,697
Total operating expenses	4,500,510	776,016	5,276,526
Operating loss	(2,159,017)	(126,339)	(2,285,356)
Non-operating revenues (expenses):			
Federal grants	1,822,112	-	1,822,112
State grants	65,733	61,642	127,375
Donated commodities	230,859	-	230,859
Investment income	17,073	5,925	22,998
Gain on asset disposal	3,058	-	3,058
Total non-operating revenues (expenses)	2,138,835	67,567	2,206,402
Other financing sources (uses):			
Operating transfers out	(10,645)	-	(10,645)
Total other financing sources (uses)	(10,645)	-	(10,645)
Net income (loss)	(30,827)	(58,772)	(89,599)
Net assets, July 1, 2002, as restated	1,719,479	341,429	2,060,908
Net assets, June 30, 2003	\$1,688,652	\$ 282,657	\$1,971,309

The accompanying notes are an integral part
of the basic financial statements.

DAVIESS COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

for the year ended June 30, 2003

	SCHOOL FOOD SERVICES	OTHER ENTERPRISE FUND AFTER SCHOOL PROGRAM	TOTAL
Cash Flows From Operating Activities:			
Cash received from:			
Lunchroom sales	\$ 2,315,724	\$ -	\$ 2,315,724
Other activities	27,797	649,179	676,976
Cash paid to suppliers	(2,103,293)	(178,942)	(2,282,235)
Cash paid to employees	(1,883,034)	(545,049)	(2,428,083)
Cash paid for other expenses	(168,093)	(31,098)	(199,191)
Net Cash Used in Operating Activities	(1,810,899)	(105,910)	(1,916,809)
Cash Flows From Noncapital Financing Activities			
Cash received for operational grants	1,867,379	61,642	1,929,021
Net Cash Provided by Noncapital Financing Activities	1,867,379	61,642	1,929,021
Cash Flows From Capital and Related Financing Activities			
Purchases of capital assets	(64,710)	(1,720)	(66,430)
Cash proceeds from sale of assets	4,273	-	4,273
Transfer to purchase capital asset	(10,645)	-	(10,645)
Net Cash Used In Capital and Related Financing Activities	(71,082)	(1,720)	(72,802)
Cash Flows From Investing Activities			
Interest earned	17,073	5,925	22,998
Advances to other funds	(50,550)	-	(50,550)
Net Cash Provided by (Used In) Investing Activities	(33,477)	5,925	(27,552)
Decrease in Cash and Cash Equivalents	(48,079)	(40,063)	(88,142)
Cash and Cash Equivalents, Beginning of year	1,151,989	312,498	1,464,487
Cash and Cash Equivalents, End of Year	\$ 1,103,910	\$ 272,435	\$1,376,345

Continued

DAVIESS COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS, Continued
PROPRIETARY FUNDS
for the year ended June 30, 2003

	SCHOOL FOOD SERVICES	OTHER ENTERPRISE FUND AFTER SCHOOL PROGRAM	TOTAL
Reconciliation of Operating Loss to Net Cash Used in Operations:			
Loss from operations	\$(2,159,017)	\$ (126,339)	\$(2,285,356)
Adjustments to reconcile loss from operations to cash used in operating activities:			
Depreciation	103,221	4,358	107,579
Commodities received	230,859		230,859
Increase in accounts and grants receivable	-	(497)	(497)
Increase in inventories	(33,846)	-	(33,846)
Increase in accounts payable and accrued liabilities	44,110	19,814	63,924
Increase in prepaid lunches	2,027	-	2,027
Other	1,747	(3,246)	(1,499)
Net Cash Used in Operating Activities	<u><u>\$(1,810,899)</u></u>	<u><u>\$ (105,910)</u></u>	<u><u>\$(1,916,809)</u></u>

Summary of Noncash Noncapital Financing Activity

During the year, the Board received \$230,859 of food commodities from the U.S. Department of Agriculture.

The accompanying notes are an integral part
of the basic financial statements.

DAVIESS COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2003

	AGENCY (ACTIVITY) FUNDS	PRIVATE- PURPOSE TRUST FUNDS	TOTAL
Assets:			
Cash and cash equivalents	\$1,363,752	\$ 6,487	\$ 1,370,239
Accounts receivable	12,412	-	12,412
Inventories	62,655	-	62,655
Total assets	<u>\$1,438,819</u>	<u>\$ 6,487</u>	<u>\$ 1,445,306</u>
Liabilities:			
Accounts payable	\$ 21,441	\$ 68	\$ 21,509
Funds due to other groups	1,417,378	-	1,417,378
Total liabilities	<u>1,438,819</u>	<u>68</u>	<u>1,438,887</u>
Net assets:			
Held in trust for scholarships	<u>-</u>	<u>6,419</u>	<u>6,419</u>
Total net assets	<u><u>\$ -</u></u>	<u><u>\$ 6,419</u></u>	<u><u>\$ 6,419</u></u>

The accompanying notes are an integral part
of the basic financial statements.

DAVIESS COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
for the year ended June 30, 2003

Additions	
Trustee contributions	\$ 14,300
Interest	65
	<hr/>
	14,365
Deductions	
Student support services	15,492
	<hr/>
Net decrease	(1,127)
Net assets, beginning of year	7,546
	<hr/>
Net assets, end of year	<u><u>\$ 6,419</u></u>

The accompanying notes are an integral part
of the basic financial statements.

**DAVIESS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Daviess County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Daviess County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Government Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, and the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds relevant to the operation of the Daviess County School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization is included in the accompanying financial statements through blended presentation.

Daviess County School District Finance Corporation - On April 20, 1989, the Daviess County, Kentucky, Board of Education resolved to authorize the establishment of the Daviess County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities and related projects. The Board Members of the Daviess County Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation

District-wide Financial Statements - the statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The district-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the district-wide statements and the statements for governmental funds.

DAVIESS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The district-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues that are not classified as program revenues are presented as general revenues of the District. The comparison of direct expense with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the district finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

The **General Fund** is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. The General Fund carries a budgeted contingency of approximately \$3,000,000 which was not expended at June 30, 2003. The contingency zeros out the budgeted fund balance at June 30 as per Kentucky Department of Education requirements. This is a major fund of the District.

The **Special Revenue (Grant) Fund** accounts for proceeds of specific revenue sources (other than fiduciary activities or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs, as well as state grant programs, where unused balances are returned to the grantor at the close of specified project periods. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

Continued

DAVIESS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The **Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund** receives those funds designated by the state as Capital Outlay Funds and is generally restricted for use in financing projects identified in the District's facility plan and for the corresponding debt service.

The **Facility Support Program of Kentucky Fund (FSPK)** accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan and for the corresponding debt service.

The **Construction Fund** accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

The **Debt Service Fund** is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

Proprietary Funds

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business. The District has two enterprise funds: the School Food Services Fund and the After School Program Fund.

The **School Food Services Fund** is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Services Fund is a major fund.

The **After School Program Fund** is used to account for after school programs established to provide supervised activities for children in the afternoon.

The District applies all applicable GASB pronouncements to proprietary funds, as well as specific FASB pronouncements issued before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Fiduciary Funds

Fiduciary funds account for assets held by the District in a trustee capacity (trust funds) or as an agent on behalf of others (agency funds).

The agency fund is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity.

Continued

DAVIESS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Fiduciary Fund Type, continued

The agency fund consists of activity funds and accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with ***Uniform Program of Accounting for School Activity Funds***.

The private purpose trust funds can only be used to fund scholarships in accordance with established criteria of the funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party received essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year end.

Nonexchange transactions, in which the District received value without directly giving equal value in return, include property taxes, grants entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue on both the accrual and nonaccrual basis of accounting.

Delinquent property taxes receivable are recorded as deferred revenue on the modified accrual basis because they are considered unavailable.

Continued

DAVIESS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Accounting, continued

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues - Property taxes are levied annually by ordinance, usually in October on the assessed value listed as of the prior January 1, for all real and personal property in the District. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2003 were 50.7 cents per \$100 valuation for real property, 50.7 cents per \$100 valuation for business personal property, 49.0 cents per \$100 valuation for motor vehicles, of which 11.4 cents is for participation in Facility Support Program and 11.4 cents is an equivalent tax restricted to debt service and the construction of new facilities authorized in KRS 157.621 for qualifying growth districts.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the District, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Cash and Cash Equivalents

The Board considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Investments

The District's investment policy, which complies with applicable state statutes, allows the District to invest excess operating funds in insured certificates of deposit, obligations of the U.S. Government and its agencies including obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency, bonds or certificates of indebtedness of the State of Kentucky and of its agencies and the Kentucky School District Liquid Asset Fund, Plus, and commercial paper rated in the highest category by a

Continued

DAVIESS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Investments, continued

nationally recognized rating agency. The District follows GASB No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, which establishes valuation and reporting standards for certain investments held by governmental entities.

Receivables

The Board recognizes revenues as receivable when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions.

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Federal, state and local grants to be used or expended as specified by the grantor are recognized as revenue and recorded as receivables as qualifying expenditures are made. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (general fund)	\$ 389,459	\$ -
Grant drawdowns prior to meeting all eligibility requirements (special revenue funds)	<u>-</u>	<u>631,930</u>
Total deferred revenue for governmental funds	<u><u>\$ 389,459</u></u>	<u><u>\$631,930</u></u>

Inventories

Inventories are valued at cost or fair market value for U.S. government commodities received, using the first-in, first-out method. Inventories are expensed when used.

In the governmental funds balance sheet, reported inventories in the general fund are equally offset by a reserve which indicates that they do not constitute "available spendable resources", even though they are a component of total assets.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2003 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Continued

DAVIESS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide statement of net assets but are not reported in the fund financial statement balance sheet. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the district-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	50 years
Building improvements	25 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	10-15 years
Food service equipment	12 years

Estimated useful lives are determined under guidelines issued by the Kentucky Department of Education.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Continued

**DAVIESS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Accumulated Unpaid Sick Leave Benefits, continued

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the district-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2003. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying financial statements.

On-behalf Fringe Benefit Payments

The Kentucky Department of Education (KDE) makes certain fringe benefit payments for District employees, such as teacher retirement employer match, health and life insurance, flexible spending and administrative fees. During 2003, the District received \$9,631,713 in on-behalf fringe benefit payments from KDE.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the district-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Continued

**DAVIESS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories, site based councils, technology expenditures and capital assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools and fees charged for the after school program.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

During the fiscal year ended June 30, 2003, the District implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments."

GASB 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include district-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Continued

DAVIESS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

**NOTE B - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE,
Continued**

The district-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

The School District made several changes in accounting principles during the year. For governmental activities, they began recording prepaid assets, including inventories and removed the vacation liability. These changes bring the District's funds into compliance with the fund classifications and requirements of GASB 34.

Restatement of Fund Balance - The restatement for the above changes and the transition from governmental fund balance to net assets of the governmental activities is presented below:

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Non- major</u>	<u>Total</u>
Fund Balance, June 30, 2002	\$ 6,065,549	\$ 118,293	\$ 25,209	\$ 1,086,316	\$ 7,295,367
Beginning accrued vacation	161,108	-	-	-	161,108
Record beginning pre- paid assets and inventories	476,079	-	-	-	476,079
Adjusted Fund Balance, June 30, 2002	<u>\$ 6,702,736</u>	<u>\$ 118,293</u>	<u>\$ 25,209</u>	<u>\$ 1,086,316</u>	<u>\$ 7,932,554</u>
GASB 34 Adjustments:					
Capital Assets - Net of Depreciation					63,768,755
Long-term Liabilities					(40,913,755)
Accumulated sick leave					(1,350,244)
Accrued interest payable					(277,105)
Accrued vacation payable					(161,108)
Property taxes receivable					214,034
Governmental Activities Net Assets, June 30, 2002					<u>\$ 29,213,131</u>

The District also conducted a fixed asset inventory to comply with GASB 34. This inventory revealed the existence of obsolete proprietary fixed assets that have not previously been removed. Changes as a result of the GASB 34 implementation are as follows:

	<u>SCHOOL FOOD SERVICES</u>
Fund balance, June 30, 2002	\$ 1,843,764
Obsolete fixed assets removed	(124,285)
Adjusted fund balance, June 30, 2002	<u>\$ 1,719,479</u>

As proprietary funds are already on the accrual basis, no other adjustments are necessary for the statement of net assets.

Continued

DAVIESS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE C - ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

NOTE D - DEPOSITS

The District maintains a common checking account for all funds. School Food Services and After School Program funds maintain additional deposit accounts.

At year end, the carrying amount of the District's deposits totaled \$3,005,730. The bank balance was \$4,128,487. Of the bank balance, \$120,967 was covered by Federal depository insurance and \$4,007,520 was covered by collateral held by the pledging bank, in the pledging bank's name. Kentucky regulations require that any deposit funds not covered by Federal depository insurance be collateralized by Federal or Kentucky obligations having an aggregate current face value or current quoted market value at least equal to the deposits.

General Fund cash and cash equivalents at June 30, 2003 consisted of the following:

	<u>Carrying Value</u>	<u>Bank Balance</u>
Old National		
Investment account-cash equivalents	<u>\$ 259,146</u>	<u>\$ 259,146</u>

Due to the nature of the funds and limitations imposed by bond issue requirements, construction projects, and federal financial assistance programs, cash within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK) Fund, Bond and Interest Redemption Fund, School Construction Fund, and Special Revenue (Grant) Funds.

Breakdown per financial statements:

Governmental funds	\$ 259,146
Proprietary funds	1,376,345
Private purpose trust funds	6,487
Agency funds	<u>1,363,752</u>
	<u>\$ 3,005,730</u>

NOTE E - INVESTMENTS

Investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured, registered or held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments, with securities held by the counterparty, or by its trust department or agent but not in the District's name.

Continued

**DAVIESS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE E - INVESTMENTS, Continued

Investments are included in the balance sheet at fair value, under the caption "Investments". The following is a schedule of investments, categorized by type and risk, held by the District as of June 30, 2003:

	Category			Carrying	Fair
	1	2	3	Amount	Value
Federal					
Securities	\$9,984,897	\$ -	\$ -	<u>\$ 9,984,897</u>	<u>\$ 9,984,897</u>

NOTE F - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

Governmental Activities	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
Land	\$ 2,220,232	\$ 408,096	\$ -	\$ 2,628,328
Land improvements	1,722,438	-	-	1,722,438
Buildings and improvements	79,069,542	-	-	79,069,542
Technology equipment	4,546,930	516,441	(28,881)	5,034,490
Vehicles	6,381,462	803,499	-	7,184,961
General equipment	1,793,347	360,653	(1,380)	2,152,620
Construction in progress	-	1,790,913	-	1,790,913
Totals at historical cost	95,733,951	3,879,602	(30,261)	99,583,292
Less:				
Accumulated depreciation	31,965,196	3,179,599	(29,178)	35,115,617
Governmental Activities Capital Assets - Net	<u>\$ 63,768,755</u>	<u>\$ 700,003</u>	<u>\$ (1,083)</u>	<u>\$ 64,467,675</u>
Business-Type Activities				
Furniture and equipment	\$ 2,057,933	\$ 66,430	\$ (36,340)	\$ 2,088,023
Less:				
Accumulated depreciation	1,546,167	107,579	(36,622)	1,617,124
Business-Type Activities Capital Assets - Net	<u>\$ 511,766</u>	<u>\$ (41,149)</u>	<u>\$ 282</u>	<u>\$ 470,899</u>

Depreciation for governmental activities is included in the following functional categories:

Instructional	\$ 2,587,876
Support services:	
Student	361
District administration	67,552
Student transportation	435,166
Plant operations and maintenance	88,644
	<u>\$ 3,179,599</u>

NOTE G - BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as school building revenue bonds represents the District's future obligations to make lease payments relating to the bonds issued by the Fiscal Court of Daviess County and the Daviess County School District Finance Corporation.

Continued

**DAVIESS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE G - BONDED DEBT AND LEASE OBLIGATIONS, Continued

The original amount of each issue, the issue date and current and remaining interest rates follow:

<u>Issue Date</u>	<u>Original Amount</u>	<u>Rates</u>
January 1992	\$3,260,000	5.70 to 5.80 %
December 1992	3,030,000	5.10 to 5.60 %
May 1993	1,580,000	4.90 to 5.00 %
November 1993	7,175,000	4.25 to 4.50 %
May 1994	7,500,000	5.30 to 5.40 %
August 1995	2,500,000	5.20 to 5.25 %
June 1996	16,000,000	5.30 to 5.625 %
April 1997	4,420,000	5.25 to 5.30 %
June 1998	5,295,000	4.125 to 4.40 %
April 2000	4,200,000	5.00 to 5.375 %
March 2002	3,020,000	2.10 to 4.40 %
December 2002	5,315,000	2.0 to 3.75 %

The District is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Daviess County Fiscal Court and the Daviess County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In December 2002, the District issued \$5,315,000 in Refunding Revenue Bonds to advance refund \$480,000 and \$4,365,000 of outstanding 1993-A and 1994 Series bonds, respectively. The delivery of the bond issue was December 15, 2002. The net proceeds of \$5,298,161 (after payment of \$54,575 in underwriting fees, insurance, and other issuance costs) were used to purchase \$5,239,017 in U.S. government securities and \$4,569 in cash. Those securities and cash were deposited in an irrevocable trust with an escrow agent to provide for the defeasance of the 1993-A bond series scheduled to mature on and after May 1, 2006 and the 1994 bond series scheduled to mature on and after May 1, 2006, the interest on and redemption of the 1993-A series bonds scheduled to mature on May 1, 2003, the interest due on the 1994 series bond on May 1, 2003, December 1, 2003, and May 1, 2004. The 1993-A bond series and the 1994 bond series will be redeemed at a price of 102% of the principal amount redeemed on May 1, 2003 and May 1, 2004, respectively. As a result, the 1993-A bond series scheduled to mature on and after May 1, 2006, as well as the 1994 bond series scheduled to mature on and after May 1, 2006, are considered to be defeased and the liability for those bonds has been removed from long-term liabilities.

The District advance refunded the 1993-A and 1994 Series bonds to reduce its total debt service payments over the next 11 years by approximately \$377,500 and to obtain an economic gain (difference between present values of the debt service payments on the old and new debt) of approximately \$315,000.

The Daviess County School District has entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. The following table sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

Continued

**DAVIESS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE G - BONDED DEBT AND LEASE OBLIGATIONS, Continued

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2003 for debt service (principal and interest) are as follows:

YEAR	DAVIESS COUNTY SCHOOL DISTRICT		KENTUCKY SCHOOL CONSTRUCTION COMMISSION		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2003-04	\$ 1,967,680	\$ 1,526,878	\$ 997,320	\$ 303,384	\$ 4,795,262
2004-05	2,067,514	1,425,452	1,042,486	258,930	4,794,382
2005-06	2,171,231	1,323,710	1,088,769	212,808	4,796,518
2006-07	2,263,243	1,225,233	1,136,757	164,308	4,789,541
2007-08	2,367,307	1,122,437	1,187,693	113,336	4,790,773
2008-09	2,361,163	1,018,231	553,837	75,195	4,008,426
2009-10	2,470,189	908,305	579,811	50,664	4,008,969
2010-11	2,591,726	790,599	223,274	24,817	3,630,416
2011-12	2,624,860	665,668	70,140	14,652	3,375,320
2012-13	2,529,849	542,527	45,151	11,784	3,129,311
2013-14	2,347,442	422,414	47,558	9,378	2,826,792
2014-15	1,844,908	303,313	50,092	6,843	2,205,156
2015-16	1,952,986	201,311	47,014	4,324	2,205,635
2016-17	574,592	97,045	40,408	2,142	714,187
2017-18	400,000	66,382	-	-	466,382
2018-19	410,000	44,882	-	-	454,882
2019-20	425,000	22,844	-	-	447,844
	<u>\$ 31,369,690</u>	<u>\$ 11,707,231</u>	<u>\$ 7,110,310</u>	<u>\$ 1,252,565</u>	<u>\$ 51,439,796</u>

A summary of the changes in the long-term liabilities during the fiscal year ended June 30, 2003, is as follows:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Due Within One Year
Governmental activities:					
School building revenue bonds	\$40,805,000	\$ 5,315,000	\$ (7,640,000)	\$38,480,000	\$ 2,965,000
Less deferred amounts:					
For issuance discounts	-	(16,839)	1,403	(15,436)	(1,403)
On refunding	-	(398,586)	33,216	(365,370)	(33,216)
	40,805,000	4,899,575	(7,605,381)	38,099,194	2,930,381
Notes payable	108,755	-	(32,512)	76,243	30,496
Accrued vacation payable	161,108	310,112	(325,301)	145,919	145,919
Accrued sick leave	1,350,244	255,844	(272,398)	1,333,690	270,000
	<u>\$42,425,107</u>	<u>\$ 5,465,531</u>	<u>\$ (8,235,592)</u>	<u>\$39,655,046</u>	<u>\$ 3,376,796</u>

For the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

In prior years, the Daviess County School Board defeased certain general obligations by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Daviess County School District's financial statements. On June 30, 2003 \$2,810,000 of bonds outstanding are considered defeased.

Continued

**DAVIESS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE H - NOTES PAYABLE

Notes payable at June 30, 2003, consists of the following:

Note payable to the U.S. Environmental Protection Agency, non-interest bearing, due in equal semiannual installments of \$15,248 until paid in full. \$ 76,243

Maturities of notes payable are as follows:

2003-04	\$ 30,496
2004-05	30,496
2005-06	<u>15,251</u>
	<u>\$ 76,243</u>

The District maintains an operating line of credit in the amount of \$200,000 at its depository bank. There were no outstanding advances on the line as of June 30, 2003 nor were there any advances during the fiscal year ended June 30, 2003. The line of credit expires June 30, 2004.

During the year, the Board participated in a tax revenue anticipation note investment program (TRAN) with Kentucky Interlocal School Transportation Association (KISTA). The TRAN program is an arbitrage arrangement in which funds are made available to districts through financing agreements, based on their cash flow and financial position. KISTA invests the funds and the net interest earned is distributed to participating districts. The Board received \$16,163 in investment earnings from TRAN in 2002-03, and did not draw any funds from the program during the year. The agreement expired June 30, 2003.

NOTE I - ACCRUED SICK LEAVE BENEFITS

Upon retirement from the school system, certified and classified employees with 27 or more years of experience will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2003, the accrued liability totaled \$1,333,690, which is reported on the district-wide financial statements.

For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. At June 30, 2003, the District did not have an accrued sick leave liability expected to be paid with expendable available resources. The noncurrent portion of the liability is not reported in the governmental fund financial statements.

NOTE J - INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2003 consisted of the following:

Fund	Receivable	Payable
General Fund:		
Special Revenue Fund	\$ 376,854	\$ -
Nonmajor Governmental Funds	-	1,102,200
School Food Service	<u>-</u>	<u>50,550</u>
Total General Fund	<u>376,854</u>	<u>1,152,750</u>

Continued

DAVIESS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE J - INTERFUND RECEIVABLES AND PAYABLES, Continued

Fund	<u>Receivable</u>	<u>Payable</u>
Special Revenue (Grant) Fund:		
General Fund	\$ -	\$ 376,854
Nonmajor Governmental Funds:		
General Fund	1,102,200	-
Other balances	191,546	191,546
	<u>1,293,746</u>	<u>191,546</u>
School Food Service:		
General Fund	50,550	-
Total	<u>\$1,721,150</u>	<u>\$1,721,150</u>

Summary of balances due from other funds reported in fund financial statements:

\$1,670,600	Due from other funds, balance sheet - governmental funds
<u>50,550</u>	Due from other funds, statement of net assets- proprietary funds
<u>\$1,721,150</u>	

All interfund balances are comprised of short-term cash flow advances at June 30, 2003.

NOTE K - COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for equipment provide for minimum future rental payments as of June 30, 2003 as follows:

2003-04	\$151,684
2004-05	113,124
2005-06	68,084
2006-07	<u>6,562</u>
Total minimum lease payments	<u>\$339,454</u>

Rent expense for operating leases having noncancelable lease terms in excess of one year was approximately \$173,000 for the year ended June 30, 2003.

NOTE L - RETIREMENT PLANS

KTRS

Certified employees are covered under the Kentucky Teachers' Retirement System (KTRS), a cost-sharing multiple-employer defined benefit pension plan. KTRS administers retirement and disability annuities, death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. Cost-of-living adjustments (COLA) are 1-1/2% annually. Additional ad hoc increases and any

Continued

**DAVIESS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE L - RETIREMENT PLANS, Continued

other benefit amendments must be authorized by the General Assembly. KTRS was created by the 1938 General Assembly and is governed by Chapter 161, Sections 220 through 990 of the Kentucky Revised Statutes (KRS). The Kentucky Teachers' Retirement system issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3800.

Contribution rates are established by Kentucky Revised Statutes. Plan members are required to contribute 9.855% of their salaries and the State is required to contribute 13.105% of salaries. KRS 161.555 requires that school districts employing members whose position was established by federal programs to contribute an amount equal to the member's contribution. Matching contributions of \$228,937 were submitted by the District for employees employed by federal programs. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

The Daviess County Public School District's total payroll for the year was \$48,007,264. The payroll for employees covered under KTRS was \$35,160,687. For the year ended June 30, 2003, the Commonwealth contributed \$4,378,871 to KTRS for the benefit of District participating employees.

The District had no contribution requirements to KTRS for the years ended June 30, 2003, 2002 and 2001, other than for federal programs.

CERS

Substantially all other employees (classified personnel) are covered under the County Employees' Retirement System (CERS), a cost-sharing, multiple employer, defined benefit plan administered by the Board of Trustees of Kentucky Retirement Systems (KRS). CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may extend to beneficiaries of plan members under certain circumstances. COLA are provided at the discretion of the State legislature. Section 61.645 of the Kentucky Revised Statutes assigns the authority to establish and amend benefit provisions to the KRS Board of Trustees. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-564-4646.

Plan members are required to contribute 5% of their annual creditable compensation and the District is required to contribute at an actuarially determined rate. The current rate is 6.34% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by KRS Board of Trustees. The District's contributions to CERS for the years ended June 30, 2003, 2002, and 2001 were \$748,087, \$703,356, and \$733,102, respectively, equal to the required contributions for each year.

**DAVIESS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE M - COMMITMENTS

At June 30, 2003, the District was involved in construction projects totaling \$10,817,384 for the construction of a new elementary school and additions/renovations to three elementary schools. Approximately \$8,615,000 remained to be completed on these projects at June 30, 2003. Subsequent to the year ended June 30, 2003, the Board approved construction projects totaling \$1,162,974 for new canopies, doors and security hardware for three schools and improvements to a high school gym.

NOTE N - CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantor may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their programs.

The District offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. These plans, available to all eligible District employees, permit them to defer a portion of their salary until future years. Participation in the plans is optional. The deferred compensation is not available to employees until termination, retirement, death or hardship.

The District anticipates no liability for losses under the plans but has the duty of due care that would be required of an ordinary prudent investor, and this duty is managed by a third party administrator.

Investments are managed by the plan's trustee. The choice of the investment option(s) is made by the participants.

NOTE O - LITIGATION

The District is involved in certain legal actions which are in various stages of litigation, the outcome of which are not determinable at this time. Management and legal counsel do not anticipate that there will be any material effect on the financial statements as a result of any cases presently in progress.

NOTE P - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District has obtained insurance for workers' compensation, errors and omissions, general liability coverage, and commercial insurance for all other risks of loss. The District also purchases unemployment insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**DAVIESS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE Q - DEFICIT OPERATING/FUND BALANCES

The construction fund of the District currently has a deficit fund balance due to construction accounts payable, which will be funded by transfers from other funds. The following funds have operations that resulted in a current year excess of expenditures over revenues resulting in a corresponding reduction of fund balance:

General Fund	\$ (989,561)
Special Revenue Fund	\$ (92,462)
Debt Service Fund	\$ (25,209)
SEEK Capital Outlay Fund	\$ (543,431)
Construction Fund	\$ (882,789)

NOTE R - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss (contingency).

NOTE S- TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Technology Matching	\$ 75,007
Operating	FSPK	Debt Service	Bond and Interest Redemption	3,458,982
Operating	SEEK Capital Outlay	Debt Service	Bond and Interest Redemption	32,514
Operating	SEEK Capital Outlay	Construction	Construction Projects	1,460,167
Operating	School Food Services	Construction	Walk in Freezer	<u>10,645</u>
		Total transfers		<u>\$5,037,315</u>

**DAVIESS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE T - ANNUAL FINANCIAL REPORT DIFFERENCES

A reconciliation of the General Fund cash and cash equivalents as reported on the annual financial report to the amount presented in the financial statements as of June 30, 2003 is as follows:

Cash and cash equivalents per annual financial report			\$(4,143,802)
Adjustments to			
Reclass summer payroll checks from outstanding to accrued liability	\$3,304,192		
To adjust investment earnings to actual	2,054	\$	
To adjust for 2002 W2 adjustments incorrectly posted to cash	63,792		
To adjust for cash owed from Special Revenue Fund	(378,986)		
To reclass cash equivalents included in trust account	259,146		
To adjust for cash owed to other funds	<u>1,152,750</u>		<u>4,402,948</u>
Cash and cash equivalents per Governmental Funds Balance Sheet			<u>\$ 259,146</u>

NOTE U - SUBSEQUENT EVENTS

In July 2003, the District issued \$9,995,000 in School Building Revenue Bonds to finance the construction of a new elementary school and to renovate two existing elementary schools. The bonds mature on August 1, 2004 through 2023 with interest rates ranging from 1.15% to 4.6%.

REQUIRED SUPPLEMENTARY INFORMATION
(OTHER THAN MD & A)

DAVIESS COUNTY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

for the year ended June 30, 2003

	GENERAL FUND			VAIRANCE WITH FINAL BUDGET OVER (UNDER)
	BUDGETED AMOUNTS			
	ORIGINAL	FINAL	ACTUAL	
Revenues:				
From local sources:				
Taxes:				
Property	\$10,069,624	\$11,107,614	\$10,978,153	\$ (129,461)
Motor vehicle	1,244,808	1,198,278	1,291,895	93,617
Delinquent	-	63,000	76,857	13,857
Distilled spirits	72,246	66,286	64,634	(1,652)
Public service company	557,147	585,608	573,895	(11,713)
Utilities	2,400,000	2,597,000	2,644,872	47,872
Tuition and fees	70,000	90,000	89,747	(253)
Earnings on investments	620,000	1,000,000	549,782	(450,218)
Other local revenues	581,000	611,000	810,195	199,195
Intergovernmental-state	29,388,256	31,838,290	31,835,792	(2,498)
Total revenues	45,003,081	49,157,076	48,915,822	(241,254)
Expenditures:				
Current:				
Instruction	27,504,149	31,198,561	30,920,104	(278,457)
Support services:				
Student	1,634,919	1,862,697	1,777,409	(85,288)
Instructional staff	2,531,720	1,878,641	1,613,355	(265,286)
District administration	4,187,345	3,430,738	394,876	(3,035,862)
School administration	3,791,329	3,631,875	3,085,450	(546,425)
Business	905,207	912,220	753,726	(158,494)
Plant operations and maintenance	5,858,483	6,255,663	5,847,080	(408,583)
Student transportation	3,977,817	4,994,191	4,688,945	(305,246)
Central office	825,037	710,956	528,282	(182,674)
Community service	141,826	161,230	157,412	(3,818)
Facilities acquisition and construction	307,535	120,061	64,107	(55,954)
Total expenditures	51,665,367	55,156,833	49,830,746	(5,326,087)
Excess (deficit) of revenues over expenditures	(6,662,286)	(5,999,757)	(914,924)	5,084,833
Other financing sources (uses):				
Proceeds from sale of fixed assets	10,000	10,000	370	(9,630)
Operating transfers out	(425,791)	(75,791)	(75,007)	784
Total other financing sources (uses)	(425,791)	(65,791)	(74,637)	(8,846)
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(7,088,077)	(6,065,548)	(989,561)	5,075,987
Fund balance, July 1, 2002	7,088,077	6,065,548	6,702,736	637,188
Fund balance, June 30, 2003	\$ -	\$ -	\$ 5,713,175	\$ 5,713,175

The accompanying notes are an integral part of
required supplementary information

DAVIESS COUNTY SCHOOL DISTRICT

BUDGETARY COMPARISON
SPECIAL REVENUE (GRANT) FUND

for the year ended June 30, 2003

	SPECIAL REVENUE (GRANT) FUND			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET OVER (UNDER)
	ORIGINAL	FINAL		
Revenues:				
Local sources	\$ 53,138	\$ 137,785	\$ 134,819	\$ (2,966)
Intergovernmental-state	3,427,166	3,850,770	3,936,145	85,375
Intergovernmental-indirect federal	3,325,388	4,153,300	3,829,664	(323,636)
Intergovernmental-direct federal	-	-	219,449	219,449
Total revenues	6,805,692	8,141,855	8,120,077	(21,778)
Expenditures:				
Current:				
Supplies and materials	-	1,000	-	(1,000)
Instruction	6,153,813	7,315,683	7,418,258	102,575
Support services:				
District administration	24,028	23,021	24,392	1,371
School administration	7,030	3,600	7,068	3,468
Plant operations and maintenance	18,175	13,812	7,910	(5,902)
Student transportation	212,664	201,940	179,340	(22,600)
Community service	542,446	657,806	650,578	(7,228)
Total expenditures	6,958,156	8,216,862	8,287,546	70,684
Excess (deficit) of revenues over expenditures	(152,464)	(75,007)	(167,469)	92,462
Other financing sources (uses):				
Operating transfers in	154,464	75,007	75,007	-
Total other financing sources (uses)	154,464	75,007	75,007	-
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	2,000	-	(92,462)	(92,462)
Fund balance, July 1, 2002	-	-	118,293	118,293
Fund balance, June 30, 2003	\$ 2,000	\$ -	\$ 25,831	\$ 25,831

The accompanying notes are an integral part of
required supplementary information

DAVIESS COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Budgetary Process

Budgetary Basis of Accounting: Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the special revenue (grant) funds and capital project funds. The annual budget for the general fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America except for on-behalf payments. The Kentucky Department of Education does not permit Kentucky school districts to budget on-behalf payments. The District's original budgetary process accounts for certain transactions on a basis other than U.S. GAAP. The major difference between the budgetary basis and the U.S. GAAP basis is that special revenue funds and certain capital project funds adopt grant or project-length budgets. During the final budget process, the budget for these funds are adjusted to GAAP basis. All annual appropriations lapse at fiscal year end.

As required by KRS 160.470, on or before January 31 of each year, the District commences budget preparation for the following fiscal year. Before May 30, a tentative working budget is presented to the Kentucky Department of Education. A final working budget must be prepared and adopted no later than September 30. The budget is periodically amended and adopted by the Board of Education during the fiscal year with a final budget adopted by the Board prior to June 30.

The appropriated budget is prepared by fund unit, function, program, level, object and project. The legal level of budgetary control is the fund level.

Reconciliation Between the Budgetary Basis of Accounting and GAAP

A basis difference exists in the general fund between the GAAP prescribed basis of accounting for governmental funds and the budgetary basis used by the District. The difference relates to on-behalf payments. The Kentucky Department of Education prohibits Kentucky school districts from including on-behalf payments in the budget process. Line item differences are as follows:

	<u>BUDGET BASIS</u>	<u>GAAP BASIS</u>	<u>DIFFERENCE</u>
Revenues:			
Intergovernmental-state	\$31,838,290	\$41,470,003	\$ 9,631,713
Expenditures:			
Instruction	31,198,561	38,017,638	6,819,077
Support services:			
Student	1,862,697	2,242,951	380,254
Instructional staff	1,878,641	2,147,922	269,281
District administration	3,430,738	3,477,527	46,789
School administration	3,631,875	4,237,126	605,251
Business	912,220	997,854	85,634
Plant operations and maintenance	6,255,663	6,872,023	616,360
Student transportation	4,994,191	5,719,371	725,180
Central office	710,956	775,899	64,943
Community service	161,230	180,174	18,944

DAVIESS COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Budgetary Expenditures in Excess of Appropriations

The special revenue (grant fund) has expenditures in excess of appropriations for the year ended June 30, 2003. The excess expenditures are a result of the technology grant fund balance as of July 1, 2002, which was available to purchase technology related items during the year.

DAVIESS COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2003

	FSPK FUND	SEEK FUNDS	CONSTRUC- TION FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
Assets:				
Due from other funds	\$ 1,288,335	\$ 5,411	\$ -	\$ 1,293,746
Total assets	\$ 1,288,335	\$ 5,411	\$ -	\$ 1,293,746
Liabilities:				
Accounts payable	\$ 1,045	\$ -	\$ 688,371	\$ 689,416
Due to other funds	-	-	191,546	191,546
Total liabilities	1,045	-	879,917	880,962
Fund Balances:				
Fund balances:				
Reserved for encumbrances	1,287,290	5,411	(879,917)	412,784
Total fund balances	1,287,290	5,411	(879,917)	412,784
Total liabilities and fund balances	\$ 1,288,335	\$ 5,411	\$ -	\$ 1,293,746

The accompanying notes are an integral part of
 required supplementary information

DAVIESS COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2003

	FSPK FUND	SEEK FUND	CONSTRUC- TION FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
Revenues:				
From local sources:				
Taxes:				
Property	\$2,771,903	\$ -	\$ -	\$2,771,903
Motor vehicle	327,764	-	-	327,764
Distilled spirits	16,286	-	-	16,286
Public Service Company	17,029	2,000	-	19,029
Earnings on investments	117,103	,	-	117,103
Intergovernmental - state	966,509	947,900	-	1,914,409
Total revenues	4,216,594	949,900	-	5,166,494
Expenditures:				
Capital outlay:				
Facilities acquisition and construction	4,924	649	2,353,601	2,359,174
Total expenditures	4,924	649	2,353,601	2,359,174
Excess (deficit) of revenues over expenditures	4,211,670	949,251	(2,353,601)	2,807,320
Other financing sources (uses):				
Operating transfers in	-	-	1,470,812	1,470,812
Operating transfers out	(3,458,982)	(1,492,682)	-	(4,951,664)
Total other financing sources (uses)	(3,458,982)	(1,492,682)	1,470,812	(3,480,852)
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	752,688	(543,431)	(882,789)	(673,532)
Fund balance, July 1, 2002	534,603	548,842	2,871	1,086,316
Fund balance, June 30, 2003	\$ 1,287,291	\$ 5,411	\$ (879,918)	\$ 412,784

The accompanying notes are an integral part of
required supplementary information

OTHER SCHEDULES

DAVIESS COUNTY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEUDLE
SEEK CAPITAL OUTLAY

for the year ended June 30, 2003

	SEEK CAPITAL OUTLAY			
	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET OVER (UNDER)
	ORIGINAL	FINAL	ACTUAL	
Revenues:				
Earnings on investments	\$ 2,000	\$ 2,000	\$ 2,000	\$ -
Intergovernmental-state	939,112	947,900	947,900	-
Total revenues	941,112	949,900	949,900	-
Expenditures:				
Other acquisitions	941,762	1,498,742	649	(1,498,093)
Total expenditures	941,762	1,498,742	649	(1,498,093)
Excess (deficit) of revenues over expenditures	(650)	(548,842)	949,251	(1,498,093)
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	(1,492,682)	1,492,682
Total other financing sources (uses)	-	-	(1,492,682)	1,492,682
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(650)	(548,842)	(543,431)	5,411
Fund balance, July 1, 2002	650	548,842	548,842	-
Fund balance, June 30, 2003	\$ -	\$ -	\$ 5,411	\$ 5,411

DAVIESS COUNTY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEUDLE
FSPK

for the year ended June 30, 2003

	FSPK			VARIANCE WITH FINAL BUDGET
	BUDGETED AMOUNTS		ACTUAL	OVER (UNDER)
	ORIGINAL	FINAL		
Revenues:				
From local sources:				
Taxes:				
Property	\$ 2,630,672	\$ 2,771,903	\$ 2,771,903	\$ -
Motor vehicle	319,182	327,764	327,764	-
Distilled spirits	18,525	16,286	16,286	-
Public service company	142,859	117,103	117,103	-
Earnings on investments	5,000	5,000	17,029	12,029
Intergovernmental-state	651,295	966,509	966,509	-
Total revenues	3,767,533	4,204,565	4,216,594	12,029
Expenditures:				
Other acquisitions	4,029,541	4,739,169	4,924	(4,734,245)
Total expenditures	4,029,541	4,739,169	4,924	(4,734,245)
Excess (deficit) of revenues over expenditures	(262,008)	(534,604)	4,211,670	4,746,274
Other financing sources (uses):				
Operating transfers out	-	-	(3,458,982)	3,458,982
Total other financing sources (uses)	-	-	(3,458,982)	3,458,982
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(262,008)	(534,604)	752,688	1,287,292
Fund balance, July 1, 2002	262,008	534,604	534,603	(1)
Fund balance, June 30, 2003	\$ -	\$ -	\$ 1,287,291	\$ 1,287,291

DAVIESS COUNTY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEUDLE
CONSTRUCTION FUNDS

for the year ended June 30, 2003

	CONSTRUCTION			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET OVER (UNDER)
	ORIGINAL	FINAL		
Revenues:				
Earnings on investments	\$ -	\$ 150,000	\$ -	\$ (150,000)
Total revenues	-	150,000	-	(150,000)
Expenditures:				
Other acquisitions	-	11,296,761	2,353,601	(8,943,160)
Total expenditures	-	11,296,761	2,353,601	(8,943,160)
Excess (deficit) of revenues over expenditures	-	(11,146,761)	(2,353,601)	(8,793,160)
Other financing sources (uses):				
Operating transfers in	-	1,320,849	1,470,812	149,963
Proceeds from sale of bonds	-	9,825,912	-	(9,825,912)
Total other financing sources (uses)	-	11,146,761	1,470,812	(9,675,949)
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	-	(882,789)	(882,789)
Fund balance, July 1, 2002	-	-	2,871	2,871
Fund balance, June 30, 2003	\$ -	\$ -	\$ (879,918)	\$ (879,918)

DIVISION COUNTY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND FUND BALANCES
DEBT SERVICE FUND

FOR THE YEAR ENDED JUNE 30, 2003

	JAN 1992 ISSUE	DEC 1992 ISSUE	MAY 1993 ISSUE	NOV 1993 ISSUE	MAY 1994 ISSUE	AUG 1995 ISSUE	JUNE 1996 ISSUE	APRIL 1997 ISSUE	JUNE 1998 ISSUE	APRIL 2000 ISSUE	MARCH 2002 ISSUE	DECEMBER 2002 ISSUE	EPA LOANS	TOTALS
Revenues:														
Intergovernmental - state:														
Transfers from School Facilities														
Construction Commission:														
For retirement of bonds	\$16,392	\$ -	\$ -	\$526,796	\$ -	\$8,788	\$ -	\$18,160	\$386,768	\$ -	\$3,248	\$ -	\$ -	\$960,152
For payment of interest	1,939	-	-	145,667	-	8,673	-	21,314	159,782	-	7,610	-	-	344,985
Total revenues	<u>18,331</u>	<u>-</u>	<u>-</u>	<u>672,463</u>	<u>-</u>	<u>17,461</u>	<u>-</u>	<u>39,474</u>	<u>546,550</u>	<u>-</u>	<u>10,858</u>	<u>-</u>	<u>-</u>	<u>1,305,137</u>
Expenditures:														
Payment of bonds and notes	140,000	140,000	45,000	640,000	330,000	75,000	635,000	170,000	450,000	100,000	30,000	40,000	32,514	2,827,514
Payment of interest	16,680	37,430	19,977	177,410	181,081	77,625	707,536	194,033	190,031	208,836	117,307	66,382	-	1,994,328
Debt issuance costs	-	-	-	-	-	-	-	-	-	-	-	54,575	-	54,575
Total expenditures	<u>156,680</u>	<u>177,430</u>	<u>64,977</u>	<u>817,410</u>	<u>511,081</u>	<u>152,625</u>	<u>1,342,536</u>	<u>364,033</u>	<u>640,031</u>	<u>308,836</u>	<u>147,307</u>	<u>160,957</u>	<u>32,514</u>	<u>4,876,417</u>
Excess (deficit) of revenues over expenditures	<u>(138,349)</u>	<u>(177,430)</u>	<u>(64,977)</u>	<u>(144,947)</u>	<u>(511,081)</u>	<u>(135,164)</u>	<u>(1,342,536)</u>	<u>(324,559)</u>	<u>(93,481)</u>	<u>(308,836)</u>	<u>(136,449)</u>	<u>(160,957)</u>	<u>(32,514)</u>	<u>(3,571,280)</u>
Other financing sources :														
Proceeds of refunding bonds	-	-	-	-	-	-	-	-	-	-	-	5,315,000	-	5,315,000
Operating transfers in:														
Transfers from FSPK Fund	138,349	177,430	64,977	144,947	511,081	135,164	1,342,536	324,559	93,481	283,627	136,449	106,382	-	3,458,982
Transfers from SEEK Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,514</u>	<u>32,514</u>
Total other financing sources	<u>138,349</u>	<u>177,430</u>	<u>64,977</u>	<u>144,947</u>	<u>511,081</u>	<u>135,164</u>	<u>1,342,536</u>	<u>324,559</u>	<u>93,481</u>	<u>283,627</u>	<u>136,449</u>	<u>5,421,382</u>	<u>32,514</u>	<u>8,806,496</u>
Other financing uses:														
Discount on refunding bond	-	-	-	-	-	-	-	-	-	-	-	16,839	-	16,839
Payment to refunded bond escrow agent	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,243,586</u>	<u>-</u>	<u>5,243,586</u>
Total other financing uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,260,425</u>	<u>-</u>	<u>5,260,425</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,209)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,209)</u>
Fund balances, July 1, 2002	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,209</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,209</u>
Fund balances, June 30, 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

DAVIESS COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
SCHOOL ACTIVITY FUNDS
for the year ended June 30, 2003

	CASH BALANCE 06/30/02	TOTAL RECEIPTS	TOTAL DISBURSE- MENTS	CASH BALANCE 06/30/03	A/R 06/30/03	INVEN- TORIES	A/P 06/30/03	FUND BALANCES 06/30/03
Apollo High School	\$ 220,152	\$ 743,394	\$ 734,619	\$ 228,927	\$ 2,470	\$ 38,000	\$ 14,413	\$ 254,984
Audubon Elementary	13,872	60,739	52,211	22,400	85	-	-	22,485
Beacon Central High School	8,015	22,666	19,915	10,766	-	-	-	10,766
Burns Middle School	72,341	194,614	181,367	85,588	1,992	4,812	78	92,314
Burns Elementary	34,068	49,165	43,291	39,942	-	-	-	39,942
College View Middle School	126,758	258,853	265,729	119,882	-	309	29	120,162
Country Heights Elementary	73,086	77,684	71,227	79,543	-	164	119	79,588
Daviess County Middle School	46,063	256,666	237,339	65,390	-	-	-	65,390
Daviess County High School	431,792	1,042,014	1,006,484	467,322	7,179	13,245	6,419	481,327
Highland Elementary	40,274	110,535	112,161	38,648	416	4,763	-	43,827
Eastview Elementary	75,917	50,540	80,030	46,427	-	515	-	46,942
Deer Park Elementary	28,899	35,381	31,346	32,934	-	-	-	32,934
Philpot Elementary	4,061	30,491	29,725	4,827	-	431	-	5,258
Sorgho Elementary	16,688	38,573	37,670	17,591	97	-	-	17,688
Tamarack Elementary	36,756	101,577	104,201	34,132	173	-	300	34,005
Utica Elementary	9,079	15,668	15,365	9,382	-	-	-	9,382
West Louisville Elementary	28,298	16,266	16,215	28,349	-	355	-	28,704
Whitesville Elementary	21,848	43,757	33,903	31,702	-	61	83	31,680
Totals	\$1,287,967	\$3,148,583	\$3,072,798	\$1,363,752	\$ 12,412	\$ 62,655	\$ 21,441	\$1,417,378

DAVIESS COUNTY SCHOOL DISTRICT
 APOLLO HIGH SCHOOL ACTIVITY FUNDS
 SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
 for the year ended June 30, 2003

	CASH BALANCE 6/30/02	TOTAL RECEIPTS	TOTAL DISBURSE- MENTS	TRANSFERS	CASH BALANCE 6/30/03	A/R 6/30/03	A/P 6/30/03	FUND BALANCES 6/30/03
GENERAL FUND	\$ 4,963	\$ 112	\$ (1,877)	\$ (104)	\$ 3,094	\$ 0	\$ 0	\$ 3,094
OFFICE	1,008	279	(12,592)	20,998	9,693	0	0	9,693
AHS ALUMNI	10	0	0	0	10	0	0	10
AP EXAMS	410	12,067	(11,228)	(29)	1,220	0	0	1,220
BANQUET	0	2,000	(997)	(1,003)	0	0	0	0
BAND UNIFORMS	750	0	0	0	750	0	0	750
GRADUATION	0	10	(2,304)	2,294	0	0	0	0
PROM	0	4,050	(6,245)	2,195	0	0	0	0
COMPUTER	1,331	70	(1,731)	1,991	1,661	0	0	1,661
CONTINGENCY	12,889	0	(2,828)	(15)	10,046	0	0	10,046
FUNDRAISER	0	12,166	(6,368)	(5,798)	0	0	0	0
GUIDANCE	0	252	(1,734)	1,943	461	0	0	461
INTERNATIONAL BACCAL	4,293	0	(8,827)	7,512	2,978	0	0	2,978
INTERMURAL	351	1,534	(610)	0	1,275	0	0	1,275
INTEREST	0	4,475	0	(4,205)	270	0	0	270
LOCKS	0	150	(5)	0	145	0	0	145
NECESSITIES	115	81	(106)	0	90	0	0	90
OVER YOUR HEAD	943	995	(1,492)	110	556	0	0	556
PROJECT GRADUATION	882	5,947	(6,754)	(22)	53	0	0	53
RENNAISSANCE	0	2,091	(7,030)	4,939	0	0	0	0
SITE BASE COUNCIL	917	0	(850)	(67)	0	0	0	0
CHALLENGER	3,345	1,475	(2,646)	213	2,387	0	0	2,387
SPECIAL TOPICS	2,185	1,058	(2,820)	605	1,028	0	0	1,028
TEXAS GAS	0	25	0	0	25	0	0	25
VIDEO YEARBOOK	2,652	1,775	(1,997)	(1)	2,429	0	0	2,429
WORLD OF WORK	0	0	(132)	132	0	0	0	0
YEARBOOK	6,354	15,349	(12,430)	(1,120)	8,153	0	0	8,153
STUDENT ASSISTANCE	1,252	1,385	(1,261)	889	2,265	0	0	2,265
STUDENT VENDING	7,732	26,556	(19,123)	(940)	14,225	0	0	14,225
ADULT VENDING	2,831	2,449	(4,935)	1,235	1,580	0	0	1,580
ATHLETIC DIRECTOR	0	0	(680)	680	0	0	0	0
BOYS BASKETBALL	1,648	26,807	(42,098)	13,785	142	0	0	142
ATHLETIC BOOSTER	3,571	44,361	(22,486)	(22,310)	3,136	0	(266)	2,870
ATHLETIC BUDGET	0	1,752	0	(1,752)	0	0	0	0
BASEBALL/LT	6,280	23,517	(9,397)	(11,535)	8,865	0	0	8,865
BASEBALL	0	1,768	(19,363)	17,595	0	0	0	0
BOYS CROSS COUNTRY	157	1,912	(2,940)	871	0	0	0	0
GIRLS CROSS COUNTRY	0	1,486	(2,777)	1,291	0	0	0	0
CHEERLEADERS	2,955	14,645	(17,407)	4,283	4,476	0	0	4,476
E-GALS	2,490	6,754	(6,404)	27	2,867	0	0	2,867
EAGLETTES	4,540	22,359	(27,765)	3,922	3,056	0	0	3,056
FOOTBALL	0	7,054	(28,560)	21,506	0	0	0	0
FIELD MAINTENANCE	615	0	(1,608)	993	0	0	0	0
GENERAL ATHLETICS	38,700	10,582	(42,320)	9,524	16,486	0	(5,247)	11,239
GIRLS BASKETBALL	6,691	2,552	(16,065)	7,811	989	0	0	989
GIRLS GOLF	277	250	(2,246)	1,719	0	0	0	0
BOYS GOLF	0	288	(2,368)	2,080	0	0	0	0
GATE	0	81,406	(4,525)	(76,881)	0	0	0	0
VENDING MACHINES	0	775	0	(775)	0	2,470	0	2,470
GIRLS TRACK	910	2,805	(7,032)	3,317	0	0	0	0
SOFTBALL	0	9,410	(12,269)	3,990	1,131	0	0	1,131
GIRLS SOCCER	0	0	(4,291)	4,291	0	0	0	0
BOYS SOCCER	0	955	(4,310)	3,355	0	0	0	0
SPORTS PROGRAMS	0	5,940	(1,172)	(4,768)	0	0	0	0
SUPPLY STORE	2,351	18,471	(13,947)	(3,546)	3,329	0	0	3,329
SWIM TEAM/G&B	0	1,604	(3,186)	1,582	0	0	0	0
TENNIS/B&G	0	1,317	(4,963)	3,646	0	0	0	0
DISTRICT SOFTBALL	0	2,420	(1,987)	(433)	0	0	0	0
BOYS TRACK	184	1,301	(3,476)	2,436	445	0	0	445
ATHLETIC VENDING	0	4,868	0	(4,868)	0	0	0	0

Continued

APOLLO HIGH SCHOOL ACTIVITY FUNDS
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES, Continued
for the year ended June 30, 2003

	CASH BALANCE 6/30/02	TOTAL RECEIPTS	TOTAL DISBURSE- MENTS	TRANSFERS	CASH BALANCE 6/30/03	A/R 6/30/03	A/P 6/30/03	FUND BALANCES 6/30/03
VOLLEYBALL	\$ 2,316	\$ 25,201	\$ (26,931)	\$ 2,236	\$ 2,822	\$ 0	\$ 0	\$ 2,822
SEMISTATE BB	0	7,783	(6,759)	(1,024)	0	0	0	0
REGIONAL BB	0	9,506	(7,622)	(1,884)	0	0	0	0
ART CLUB	194	0	0	0	194	0	0	194
BETA	316	6,723	(6,714)	(3)	322	0	0	322
CHESS	0	161	(688)	527	0	0	0	0
DRAMA	2,655	3,491	(5,278)	(26)	842	0	0	842
COUNCIL FOR EX CHILD	912	2,027	(2,127)	(24)	788	0	0	788
FFA ALUMNI	2,714	165	(5,587)	4,000	1,292	0	0	1,292
FBLA	383	6,188	(6,715)	1,184	1,040	0	0	1,040
FCA	80	0	0	0	80	0	0	80
FUTURE ED OF AMERICA	0	100	(100)	100	100	0	0	100
FFA	3,917	31,184	(24,447)	(6,152)	4,502	0	0	4,502
FCCLA	130	0	0	0	130	0	0	130
FILM CLUB	0	40	(35)	0	5	0	0	5
FRENCH	9	1,075	(628)	(456)	0	0	0	0
GERMAN	9	0	0	(9)	0	0	0	0
HABITAT	87	1,200	(1,228)	0	59	0	0	59
ACADEMIC TEAM	196	8,680	(8,001)	(11)	864	0	0	864
KEY CLUB	3	1,035	(804)	0	234	0	0	234
NATIONAL HONOR SOCIETY	1,145	1,887	(2,206)	(100)	726	0	0	726
PTSO	35	1,255	(1,096)	0	194	0	0	194
ROTC BOOSTER	1,669	1,386	(1,225)	25	1,855	0	0	1,855
STUDENT COUNCIL	7,198	6,402	(8,634)	(678)	4,288	0	0	4,288
SADD	250	199	(230)	(56)	163	0	0	163
CSI	15	0	0	0	15	0	0	15
SPANISH	3,695	0	(3,695)	0	0	0	0	0
SPIRIT	267	6,565	(6,994)	390	228	0	0	228
COED-Y	50	2,368	(2,451)	33	0	0	0	0
YOUNG DEMOCRATS	0	18	0	0	18	0	0	18
TSA	0	1,897	(1,933)	434	398	0	0	398
AIR FORCE	5,406	8,951	(6,385)	373	8,345	0	0	8,345
AG	0	0	(1,755)	1,755	0	0	0	0
ART	0	0	(1,244)	2,893	1,649	0	0	1,649
BAND	356	51,404	(42,232)	(2,034)	7,494	0	0	7,494
BUSINESS	0	0	(1,105)	1,258	153	0	0	153
CHORUS	395	13,652	(11,716)	466	2,797	0	0	2,797
CAREER TRANSITION	0	0	(153)	229	76	0	0	76
DRIVER ED	0	150	(3,756)	3,606	0	0	0	0
ENGLISH	0	153	(1,590)	1,461	24	0	0	24
FRESHMAN TEAM 1	0	1,400	(1,296)	(104)	0	0	0	0
FINE ARTS	0	557	(1,392)	891	56	0	0	56
FOREIGN LANGUAGE	200	2,030	(3,871)	3,221	1,580	0	(614)	966
FMD	200	250	(354)	264	360	0	0	360
GREENHOUSE	4,651	4,144	(11,061)	8,580	6,314	0	0	6,314
CONSUMER SCIENCE	1,795	0	(4,927)	3,132	0	0	0	0
MATH	0	984	(651)	101	434	0	0	434
MMD	0	543	(1,018)	1,095	620	0	0	620
ORCHESTRA	0	683	(705)	381	359	0	0	359
HEALTH/PE	0	276	(509)	643	410	0	0	410
ROTC	4,931	10,913	(11,587)	(207)	4,050	0	0	4,050
SCIENCE	0	243	(556)	313	0	0	0	0
SPEECH	2	0	(70)	68	0	0	0	0
SPECIAL SERVICES	0	510	(512)	239	237	0	0	237
SOCIAL STUDIES	0	0	(692)	692	0	0	0	0
TECH-ED	1,358	730	(660)	(915)	513	0	0	513
LIBRARY COPY MACHINE	153	347	(1,135)	635	0	0	0	0
LIBRARY FINES	1,024	2,037	(3,223)	668	506	0	0	506
AUDIO VISUAL	1,065	30	(1,693)	1,061	463	0	0	463
POSTER PRINTER	700	135	(1,685)	1,515	665	0	0	665
STUDENT FEES	0	100,350	(1,537)	(98,515)	298	0	0	298
LOST/DAMAGED BOOKS	0	3,102	(132)	26	2,996	0	0	2,996

Continued

APOLLO HIGH SCHOOL ACTIVITY FUNDS
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES, Continued
for the year ended June 30, 2003

	CASH BALANCE 6/30/02	TOTAL RECEIPTS	TOTAL DISBURSE- MENTS	TRANSFERS	CASH BALANCE 6/30/03	A/R 6/30/03	A/P 6/30/03	FUND BALANCES 6/30/03
BOOK RENTAL	\$ 0	\$ 0	\$ (53,456)	\$ 53,456	\$ 0	\$ 0	\$ 0	\$ 0
CHEER SCHOLARSHIP	1,447	0	0	24	1,471	0	0	1,471
CASH DRAWER CHANGE	0	100	(100)	0	0	0	0	0
LATHAM SCHOLARSHIP	12,258	0	(500)	202	11,960	0	0	11,960
EAGLE FAMILY	592	1,470	(2,000)	13	75	0	0	75
COKE SCHOLARSHIP	0	13,809	0	123	13,932	0	0	13,932
PRUDEN SCHOLARSHIP	17,677	550	0	297	18,524	0	0	18,524
EAGLE HIGH TRUST	11,115	3,645	(2,669)	0	12,091	0	(8,286)	3,805
	<u>\$ 220,152</u>	<u>\$ 743,394</u>	<u>\$ (734,619)</u>	<u>\$ 0</u>	<u>\$ 228,927</u>	<u>\$ 2,470</u>	<u>\$ (14,413)</u>	<u>216,984</u>
INVENTORIES								<u>38,000</u>
								<u>\$ 254,984</u>

DAVIESS COUNTY SCHOOL DISTRICT
DAVIESS COUNTY HIGH SCHOOL ACTIVITY FUNDS
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
for the year ended June 30, 2003

	CASH BALANCE 6/30/2002	TOTAL RECEIPTS	TOTAL DISBURSE- MENTS	TRANSFERS	CASH BALANCE 6/30/2003	A/R	A/P	FUND BALANCES 6/30/2003
GENERAL FUND	\$ 14,102	\$ 13,340	\$ (4,918)	\$ 3,848	\$ 26,372	\$ 0	\$ 0	\$ 26,372
OFFICE SUPPLIES	8,536	458	(8,203)	9,994	10,785	0	0	10,785
ACCOUNT	0	2,011	0	0	2,011	0	0	2,011
ACTIVITY FEES	0	161,672	(71,881)	(87,920)	1,871	0	0	1,871
MISC. MAINTENANCE	729	0	(416)	1,500	1,813	0	0	1,813
MISC. TEXTBOOKS	3,645	0	(2,135)	1,500	3,010	0	0	3,010
SBDM COUNCIL	697	0	(361)	(336)	0	0	0	0
STUDENT FEES/\$24	2,625	323	(7,878)	15,114	10,184	0	0	10,184
TEXTBOOKS/STATE	25	1,002	(1,037)	10	0	0	0	0
TRAVEL	6,798	0	(664)	1,108	7,242	0	0	7,242
VENDING	61,883	37,745	(20,918)	(14,158)	64,552	6,265	(38)	70,779
FACULTY VENDING	3,279	4,091	(4,918)	0	2,452	469	0	2,921
PANTHERMART	2,291	1,886	(2,931)	150	1,396	0	0	1,396
PICTURE COMMISSION	0	4,382	0	0	4,382	0	0	4,382
MAGAZINE	17,610	63,168	(38,477)	(26,392)	15,909	0	0	15,909
NICKEL WAR	1,143	4,752	(3,298)	50	2,647	0	0	2,647
ATHLETICS GENERAL	3,127	110,978	(54,659)	(59,446)	0	0	0	0
ATHLETIC TRAINING	0	0	(3,087)	3,276	189	0	0	189
ATHLETIC BOOSTERS	5,179	76,677	(43,174)	(33,579)	5,103	0	0	5,103
BASEBALL SIGNS	1,184	6,425	(4,137)	0	3,472	0	0	3,472
BASEBALL	201	3,659	(9,488)	6,105	477	0	0	477
BASEBALL-DISTRICT	0	4,866	(3,553)	0	1,313	0	0	1,313
BASEBALL TOURNAMENT	0	2,968	(2,220)	0	748	0	0	748
BASKETBALL CAMP GIRLS	160	2,865	(2,931)	(93)	1	0	0	1
BASKETBALL-BOYS	977	15,392	(21,848)	7,236	1,757	0	(1,350)	407
BOYS BKB TOURNAMENT	0	6,792	(3,398)	(3,394)	0	0	0	0
BASKETBALL-GIRLS	0	6,945	(16,008)	9,063	0	0	0	0
BASKETBALL CAMP BOYS	1,032	3,631	(3,987)	(62)	614	0	0	614
BBK SHIRTS	0	5,369	(5,827)	458	0	0	0	0
CC/TR INVATIONALS	4,321	7,647	(7,908)	(448)	3,612	0	0	3,612
TRACK- REGIONAL	0	1,828	(1,045)	0	783	0	0	783
CC/TRACK BOYS	2,012	6,696	(12,174)	6,825	3,359	0	0	3,359
CROSS COUNTRY -GIRLS	290	1,494	(3,591)	2,834	1,027	0	0	1,027
TRACK GIRLS	287	1,574	(4,638)	3,780	1,003	0	0	1,003
CHEERLEADERS	7,393	41,266	(48,190)	6,224	6,693	0	0	6,693
FIELD MAINTENANCE	0	0	(6,059)	6,059	0	0	0	0
FOOTBALL	2,800	5,059	(29,552)	21,693	0	0	0	0
GOLF TOURNAMENT	150	4,465	(4,050)	(565)	0	0	0	0
GOLF BOYS	0	959	(2,410)	1,451	0	0	0	0
GOLF GIRLS	46	564	(2,082)	1,472	0	0	0	0
PANTHERETTES	1,237	8,568	(9,313)	3,782	4,274	0	0	4,274
SOCCER-SUB SECTIONAL	0	1,248	(1,148)	(100)	0	0	0	0
SOCCER BOYS	1,264	4,435	(11,435)	5,868	132	0	0	132
SOCCER TOURNAMENT	0	1,028	(638)	(390)	0	0	0	0
SOCCER GIRLS	33	5,228	(7,717)	2,720	264	0	0	264
SOFTBALL	0	1,912	(5,441)	6,116	2,587	0	0	2,587
BASEBALL	523	0	0	(523)	0	0	0	0
BASEBALL FLORIDA	0	12,082	(12,408)	326	0	0	0	0
STATE TOURNAMENT EXP.	1,037	5,910	(12,426)	7,000	1,521	0	0	1,521
SWIMMING	3,818	3,389	(4,638)	429	2,998	0	0	2,998
TENNIS BOYS	720	238	(1,561)	943	340	0	0	340
TENNIS GIRLS	862	776	(2,965)	1,327	0	0	0	0
VOLLEYBALL	65	1,882	(4,416)	2,469	0	0	0	0
VOLLEYBALL TOURNAMENT	0	5,060	(4,335)	(725)	0	0	0	0

Continued

DAVIESS COUNTY SCHOOL DISTRICT
DAVIESS COUNTY HIGH SCHOOL ACTIVITY FUNDS
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
for the year ended June 30, 2003

	CASH BALANCE 6/30/2002	TOTAL RECEIPTS	TOTAL DISBURSE- MENTS	TRANSFERS	CASH BALANCE 6/30/2003	A/R	A/P	FUND BALANCES 6/30/2003
4-H CLUB	\$ 14	\$ 105	\$ (119)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
ART CLUB	510	170	0	(15)	665	0	0	665
BETA CLUB	630	940	(1,178)	225	617	0	0	617
CHRISTIAN STU. UNION	134	0	0	0	134	0	0	134
DRAMA CLUB	0	1,152	(1,066)	0	86	0	0	86
FBLA	554	2,379	(2,819)	235	349	0	0	349
FCCLA	325	3,167	(2,582)	(190)	720	0	0	720
FELLOW CHRISTIAN	209	1,269	(40)	0	1,438	0	0	1,438
FFA	1,097	10,212	(11,428)	269	150	0	(130)	20
FISH & GAME CLUB	104	0	0	0	104	0	0	104
FRENCH CLUB	516	65	(179)	(15)	387	0	0	387
FUTURE TEACHERS CLUB	309	0	(100)	0	209	0	0	209
INTERACT CLUB	765	0	0	0	765	0	0	765
JR. CIVITAN CLUB	781	352	(220)	(30)	883	0	0	883
KEY CLUB	651	1,345	(1,376)	(65)	555	0	0	555
JR CLASSICAL LEAGUE	340	4,375	(4,078)	(324)	313	0	0	313
NATIONAL HONOR SOCIETY	0	1,817	(1,312)	(460)	45	0	0	45
PEP CLUB	1,485	645	(1,840)	(200)	90	0	0	90
QUILL & SCROLL CLUB	215	120	(77)	(15)	243	0	0	243
RECYCLE CLUB	24	112	(129)	0	7	0	0	7
SADD	565	806	(628)	(54)	689	0	0	689
SPANISH CLUB	239	902	(767)	(195)	179	0	0	179
STUDENT COUNCIL	295	1,586	(1,074)	(30)	777	0	0	777
YOUNG REPUBLICANS	305	200	(254)	(15)	236	0	0	236
CO-ED Y CLUB	1,706	10,180	(9,645)	0	2,241	0	0	2,241
AG MECHANICS	0	2,198	(2,712)	714	200	0	0	200
AG/IND TECH ACADEMY	347	500	(5,502)	4,655	0	0	0	0
BUSINESS ED ACADEMY	4,355	0	(4,552)	2,192	1,995	0	0	1,995
CAREER PREP	52	0	0	34	86	0	0	86
CONSTRUCTION	2,169	9,050	(9,892)	0	1,327	0	0	1,327
EBD-HOPWOOD	212	0	(185)	(27)	0	0	0	0
FINE ARTS/MASS COMM.	3,816	4,419	(21,798)	16,902	3,339	0	0	3,339
GUIDANCE	4,062	15,570	(14,027)	(155)	5,450	0	0	5,450
HEALTH WELLNESS	941	8,374	(14,523)	7,829	2,621	0	0	2,621
HORTICULTURE	0	9,110	(9,580)	626	156	0	0	156
LIBERAL ARTS ACADEMY	2,673	3,044	(12,943)	7,226	0	0	0	0
LIBRARY	3,602	1,620	(2,898)	128	2,452	0	0	2,452
MATH/SCIENCE ACADEMY	593	1,257	(9,572)	8,604	882	0	(74)	808
SPECIAL SERVICES	0	0	0	40	40	0	0	40
ACADEMIC TEAM	531	3,675	(7,237)	3,031	0	0	0	0
BAND BOOSTERS	1,263	132,789	(127,570)	(2,129)	4,353	0	(150)	4,203
BAND-CAPITAL	9,056	16,480	(25,097)	1,200	1,639	0	0	1,639
BIG RED MACHINE	816	5,585	(6,550)	149	0	0	0	0
BUS TRAVEL	0	0	(162)	162	0	0	0	0
CLASS OF 2006	0	0	0	50	50	0	0	50
CLASS OF 2002	217	0	0	(217)	0	0	0	0
CLASS OF 2003	0	1,459	(1,262)	50	247	0	0	247
CLASS OF 2004	15	0	(44)	50	21	0	0	21
CLASS OF 2005	0	0	0	50	50	0	0	50
DRAMA	2,435	10,113	(10,909)	(88)	1,551	0	(75)	1,476
DRAMA MUSICAL	54	4,418	(5,137)	665	0	0	0	0
GRAD/SR.ACTIVITIES	1,600	370	(11,744)	9,909	135	0	0	135
MADRIGAL SINGERS	111	603	(606)	0	108	0	(77)	31

Continued

DAVIESS COUNTY SCHOOL DISTRICT
DAVIESS COUNTY HIGH SCHOOL ACTIVITY FUNDS
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
for the year ended June 30, 2003

	CASH BALANCE 6/30/2002	TOTAL RECEIPTS	TOTAL DISBURSE- MENTS	TRANSFERS	CASH BALANCE 6/30/2003	A/R	A/P	FUND BALANCES 6/30/2003
PAWS	\$ 2,170	\$ 2,380	\$ (4,501)	\$ (49)	\$ 0	\$ 0	\$ 0	\$ 0
TARGET DONATION	0	1,465	0	0	1,465	0	0	1,465
PROM	8,292	7,628	(8,570)	800	8,150	0	0	8,150
RENAISSANCE REWARDS	0	1,239	(13,217)	24,824	12,846	0	0	12,846
SPECIAL SCIENCE	316	0	(70)	0	246	0	0	246
T-SHIRTS	8,511	32,639	(42,340)	1,190	0	0	0	0
TALENT SHOW	410	0	0	(410)	0	0	0	0
YEARBOOK-ECHOES	26,680	35,097	(25,602)	(23)	36,152	0	0	36,152
NICK BROWN SCHOLARSHIP	6,503	0	(1,000)	100	5,603	0	0	5,603
BRAD SMITH SCHOLARSHIP	7,970	0	(1,000)	121	7,091	0	0	7,091
CAROL GRAY SCHOLARSHIP	587	0	(587)	0	0	0	0	0
ROBIN SWEENEY SCHOLARSHIP	4,574	0	0	76	4,650	0	0	4,650
BOBBY KEUGEL SCHOLARSHIP	562	0	(565)	3	0	0	0	0
ANDREA STEPHEN SCHOLARSHIP	502	0	(500)	(2)	0	0	0	0
CONTINGENCY FUND	143,669	0	0	0	143,669	0	0	143,669
PETTY CASH	0	3,100	0	0	3,100	0	0	3,100
FIRST COUNTY HIGH BANK	8,272	21,228	(20,627)	0	8,873	445	(4,525)	4,793
	<u>\$ 431,792</u>	<u>\$1,042,014</u>	<u>\$ (1,006,484)</u>	<u>\$ 0</u>	<u>\$ 467,322</u>	<u>\$ 7,179</u>	<u>\$ (6,419)</u>	<u>468,082</u>
INVENTORIES								<u>13,245</u>
								<u>\$ 481,327</u>

DAVIESS COUNTY SCHOOL DISTRICT
GENERAL FUND - ACCOUNTS RECEIVABLE
JUNE 30, 2003

Accounts receivable as reported in the District's Annual Financial Report to the State Department of Education - Division of Finance	\$ 604,913
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Additional accounts receivable recorded
subsequent to the Annual Financial
Report:

Reverse receivable from middle school	\$(26,000)	
Utilities gross receipts adjustment to actual	(55,025)	
Motor vehicle taxes	86,945	
Delinquent property taxes	221,231	
OMHS receivable	116,000	
Refund of unemployment contribution	<u>85,403</u>	<u>428,554</u>

Total General Fund - Accounts Receivable	<u><u>\$1,033,467</u></u>
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DAVIESS COUNTY SCHOOL DISTRICT
GENERAL FUND - ACCOUNTS PAYABLE
JUNE 30, 2003

Accounts payable as reported in the District's Annual Financial Report to the State Department of Education - Division of Finance	\$ 175,071
Additional accounts payable recorded sub- sequent to the Annual Financial Report:	
Transportation fees	<u>4,112</u>
Total General Fund - Accounts Payable	<u>\$ 179,183</u>

DAVIESS COUNTY SCHOOL DISTRICT
BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL
JUNE 30, 2003

BOARD MEMBERS	ADDRESS	TERM EXPIRES
Mary Tim Griffin Chairperson	4009 Chapel Lane Owensboro, KY 42031	January 1, 2005
Frank G. Riney III Vice-Chair	5651 West 5 th Street Road Owensboro, KY 42301	January 1, 2005
Dr. John Ed Dunn	3318 East 6 th Street Owensboro, KY 42303	January 1, 2006
Dwight T. Lovan	3500 Oaklane Drive Philpot, KY 42366	January 1, 2006
Joe H. Overby	4450 Greenacre Drive Owensboro, KY 42303	January 1, 2005

Administrative Personnel

Stuart M. Silberman - Superintendent and Secretary to the Board

Thomas D. Shelton - Assistant Superintendent for Finance and
Operational Support and Treasurer to the Board

Leesa Moman - Assistant Superintendent for Teaching and Learning Support

DAVIESS COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass Through Number	Program or Award Amount	Receipts or Revenues Recognized	Disburse- ments/ Expendi- tures
U.S. Department of Education:					
Elementary School Foreign Language Incentive	84.294A		\$ 188,291	\$ 175,679	\$ 175,679
Passed through the Commonwealth of KY Department of Education:					
*Title I Programs - Local Educational Agencies	84.010	35102-01	948,340	93,340	93,340
*Title I Programs - Local Educational Agencies	84.010	35103-01	1,083,168	973,685	973,685
Migrant Education - Basic State Formula Grant Program	84.011	35202-02	97,486	1,647	1,647
Migrant Education - Basic State Formula Grant Program	84.011	35203-02	73,440	70,801	70,801
Improving America's Schools Act Title VI Innovative	84.298A	53302-02	64,950	8,701	8,701
Title V Part A No Child Left Behind	84.298		65,401	58,819	58,819
*IDEA Basic	84.027	58102-02	1,117,212	3,342	3,342
*IDEA Basic	84.027	58103-02	1,379,762	1,378,485	1,378,485
*IDEA Basic Silver Grant	84.027		31,266	23,015	23,015
*IDEA Basic Silver Grant	84.027		42,609	12,395	12,395
IDEA Preschool	84.173A	58703-02	91,640	80,246	80,246
IDEA Preschool	84.173A	58701-02	90,854	10,491	10,491
Title III - Limited English Proficiency	84.365		15,963	150	150
Perkins Vocational, Title I Part C, Carryforward	84.048		1,762	1,762	1,762
Class Size Reduction	84.340	53402-01	273,649	724	724
Vocational Ed Basic Grants to States	84.048	46203-32	85,916	85,916	85,916
Technology Literacy Challenge Grant	84.3189		76,692	39,685	39,685
Title II - Technology	84.318X	73603-02	30,863	18,743	18,743
*Title II - Teacher Quality	84.367A		418,591	330,708	330,708
Eisenhower Professional Development	84.281	53002-03	57,220	1,255	1,255
Title IV Safe and Drug Free Schools	84.186A	59001-02	75,168	35,341	35,341
Title IV Safe and Drug Free Schools	84.186A	59003-02	54,530	44,340	44,340
Total Kentucky Department of Education			6,176,482	3,273,591	3,273,591
Passed through Green River Regional Educational Cooperative, Inc.:					
21 st Century Community Lrng Ctr	84.287		269,998	182,004	182,004
21 st Century Community Lrng Ctr	84.287		280,797	91,735	91,735
*IDEA Discretionary	84.027		15,912	13,792	13,792
Total Green River Regional Educational Cooperative, Inc.			566,707	287,531	287,531
Passed through Commonwealth of Kentucky Department of Juvenile Justice:					
Title I N & D Juvenile Detention Center Educational Services	84.013		22,356	22,356	22,356
Passed through the Commonwealth of Kentucky Workforce Cabinet:					
Tech-Prep Education	84.243	5463-01-60	44,000	44,000	44,000
Community Based Work Transition	84.126		26,957	26,957	26,957
Total Kentucky Workforce Cabinet			70,957	70,957	70,957
Total U.S. Department of Education			7,024,793	3,830,114	3,830,114

Continued

DAVIESS COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued
for the year ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass Through Number	Program or Award Amount	Receipts or Revenues Recognized	Disburse- ments/ Expendi- tures
U.S. Department of Labor:					
Passed through the Commonwealth of Kentucky Department of Education:					
Job Training Partnership Act	17.255		\$ 22,691	\$ 22,691	\$ 22,691
Passed through the Green River Area Development District:					
WIA In-school Youth	17.259	JG2-01, JG2-17	115,594	20,454	20,454
WIA In-school Youth	17.259	JG3-01, JG3-19	151,433	132,087	132,087
Total Green River Area Development District			267,027	152,541	152,541
Total U.S. Department of Labor			289,718	175,232	175,232
U.S. Department of Defense:					
AFROTC 02-03	12.000	9003-00	43,770	43,770	43,770
U.S. Department of Agriculture					
Passed through the Kentucky Department of Education:					
*Child Nutrition Cluster					
National School Lunch Program	10.555	57503-02	1,275,754	1,275,754	1,275,754
School Breakfast Program	10.553	51602-05	76,313	76,313	76,313
School Breakfast Program	10.553	57603-05	347,005	347,005	347,005
Food Distribution - Commodities	10.550	N/A	N/A	230,859	230,859
Food Distribution - Meal Reimbursement	10.559	57402-23	111,143	111,143	111,143
Food Distribution - Sponsor	10.559	56902-24	11,897	11,897	11,897
Total U.S. Department of Agriculture			1,822,112	2,052,971	2,052,971
Total Federal Awards			\$9,180,393	\$6,102,087	\$6,102,087
*Major Program					

NOTE: At June 30, 2003, the Daviess County School District had notes outstanding in the amount of \$76,242 due to the Environmental Protection Agency. See notes to the financial statements for further details.

DAVIESS COUNTY SCHOOL DISTRICT
 STATEMENT OF GRANT RECEIPTS, DISBURSEMENTS AND FUND BALANCE
 WORKFORCE INVESTMENT ACT GRANT
 CONTRACT NO. WIA JG2-01
 STATEMENT OF PROGRAM COSTS AND STATUS OF FUNDS
 Contract Period from July 1, 2001 to June 30, 2002
 Year ended June 30, 2003

Program Costs:

<u>Account</u>	<u>Budget</u>	<u>Prior Year</u>	<u>Current Year</u>	<u>Total</u>	<u>(Over) Under Budget</u>
Salary/training/support	\$ 76,766	\$ 65,623	\$ (517)	\$ 65,106	\$ 11,660
Total	<u>\$ 76,766</u>	<u>\$ 65,623</u>	<u>\$ (517)</u>	<u>\$ 65,106</u>	<u>\$ 11,660</u>
Cost eligible for reimbursement		<u>\$ 65,623</u>	<u>\$ (517)</u>	<u>\$ 65,106</u>	

Status of Funds:

WIA Funds

	<u>Total</u>		
Contract award	<u>\$ 76,766</u>		
WIA funds received during the period	<u>\$ 38,439</u>	<u>\$ 26,667</u>	<u>\$ 65,106</u>
Total WIA revenue	<u>38,439</u>	<u>26,667</u>	<u>65,106</u>
Total WIA expenditures	<u>65,623</u>	<u>(517)</u>	<u>65,106</u>
Excess (deficiency) of revenues over Expenditures	<u>\$ (27,184)</u>	<u>\$ 27,184</u>	<u>\$ -</u>

DAVIESS COUNTY SCHOOL DISTRICT
 STATEMENT OF GRANT RECEIPTS, DISBURSEMENTS AND FUND BALANCE
 WORKFORCE INVESTMENT ACT GRANT
 CONTRACT NO. WIA JG2-17
 STATEMENT OF PROGRAM COSTS AND STATUS OF FUNDS
 Contract Period from January 1, 2002 to December 31, 2002
 Year ended June 30, 2003

Program Costs:

Account	Budget	Prior Year	Current Year	Total	(Over) Under Budget
Salary/training/support	\$ 38,828	\$ 17,576	\$ 20,971	\$ 38,547	\$ 281
Total	<u>\$ 38,828</u>	<u>\$ 17,576</u>	<u>\$ 20,971</u>	<u>\$ 38,547</u>	<u>\$ 281</u>
Cost eligible for reimbursement		<u>\$ 17,576</u>	<u>\$ 20,971</u>	<u>\$ 38,547</u>	

Status of Funds:

WIA Funds

	<u>Total</u>		
Contract award	<u>\$ 38,828</u>		
WIA funds received during the period	\$ 7,008	\$ 31,539	\$ 38,547
Total WIA revenue	<u>7,008</u>	<u>31,539</u>	<u>38,547</u>
Total WIA expenditures	<u>17,576</u>	<u>20,971</u>	<u>38,547</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (10,568)</u>	<u>\$ 10,568</u>	<u>\$ -</u>

DAVIESS COUNTY SCHOOL DISTRICT
 STATEMENT OF GRANT RECEIPTS, DISBURSEMENTS AND FUND BALANCE
 WORKFORCE INVESTMENT ACT GRANT
 CONTRACT NO. WIA JG3-01
 STATEMENT OF PROGRAM COSTS AND STATUS OF FUNDS
 Contract Period from July 1, 2002 to June 30, 2003
 Year ended June 30, 2003

<u>Program Costs:</u>				
<u>Account</u>	<u>Budget</u>	<u>Current Year</u>	<u>Total</u>	<u>(Over) Under Budget</u>
Salary/training/support	\$126,642	\$ 108,544	\$ 108,544	\$ 18,098
Total	\$126,642	\$ 108,544	\$ 108,544	\$ 18,098
Cost eligible for reimbursement		\$ 108,544	\$ 108,544	
<u>Status of Funds:</u>				
<u>WIA Funds</u>			<u>Total</u>	
Contract award			\$ 126,642	
WIA funds received during the period		\$ 79,413	\$ 79,413	
Total WIA revenue		79,413	79,413	
Total WIA expenditures		108,544	108,544	
Excess (deficiency) of revenues over expenditures		\$ 29,131	\$ 29,131	

DAVIESS COUNTY SCHOOL DISTRICT
 STATEMENT OF GRANT RECEIPTS, DISBURSEMENTS AND FUND BALANCE
 WORKFORCE INVESTMENT ACT GRANT
 CONTRACT NO. WIA JG3-19
 STATEMENT OF PROGRAM COSTS AND STATUS OF FUNDS
 Contract Period from January 1, 2003 to June 30, 2003
 Year ended June 30, 2003

<u>Program Costs:</u>				(Over)
Account	Budget	Current Year	Total	Under Budget
Salary/training/support	\$ 24,791	\$ 23,543	\$ 23,543	\$ 1,248
Total	\$ 24,791	\$ 23,543	\$ 23,543	\$ 1,248
Cost eligible for reimbursement		\$ 23,543	\$ 23,543	
<u>Status of Funds:</u>				
<u>WIA Funds</u>			<u>Total</u>	
Contract award			\$ 24,791	
WIA funds received during the period		\$ 13,502	\$ 13,502	
Total WIA revenue		13,502	13,502	
Total WIA expenditures		23,543	23,543	
Excess (deficiency) of revenues over expenditures		\$ (10,041)	\$ (10,041)	

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

State Committee for School District Audits
Members of the Board of Education
Daviess County School District
Owensboro, Kentucky

We have audited the financial statements of Daviess County School District as of and for the year ended June 30, 2003, and have issued our report thereon dated October 20, 2003. We conducted our audit in accordance with accounting standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Guide for Auditing Local School Districts Fiscal Records*.

Compliance

As part of obtaining reasonable assurance about whether Daviess County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditors' Contract - State Audit Requirements*, except as described in the accompanying letter to management as item A03-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Daviess County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation

that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Daviess County School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 03-01 and 03-02.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described, we consider items 03-01 and 03-02 to be material weaknesses.

This report is intended solely for the information of the board members, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

October 20, 2003

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

State Committee for School District Audits
Members of the Board of Education
Daviess County School District
Owensboro, Kentucky

Compliance

We have audited the compliance of Daviess County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. Daviess County School District's major federal programs are identified in the summary of Auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Daviess County School District's management. Our responsibility is to express an opinion on Daviess County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with accounting standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Guide for Auditing Local School Districts' Fiscal Records*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Daviess County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Daviess County School District's compliance with those requirements.

In our opinion, Daviess County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of Daviess County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Daviess County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Daviess County School District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 03-02.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above as item 03-02 to be a material weakness.

This report is intended solely for the information of the board members, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

October 20, 2003

DAVIESS COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2003

Section I - Summary of Auditors' Results

Financial Statements

Type of Auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Reportable condition(s) identified that are not considered to be material weakness(es)? yes X none reported
- Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified: X yes no
- Reportable condition(s) identified that are not considered to be material weakness(es)? yes X none reported

Type of Auditors' report issued on compliance for major programs:
Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes X no

Identification of major programs.

CFDA Number(s)	Name of Federal Program or cluster
<u>84.010</u>	<u>Title I Programs - Local Educational Agencies</u>
<u>10.550</u>	<u>Child Nutrition Cluster</u>
<u>84.027</u>	<u>IDEA Basic</u>
<u>84.367A</u>	<u>Title II - Teacher Quality</u>

Dollar threshold used to distinguish between type A and type B programs. \$ 300,000

Auditee qualified as low risk auditee: yes X no

**DAVIESS COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2003**

Section II - Financial Statement Findings

**Questioned
Costs**

Reportable Conditions:

03-01 Segregation of Duties

\$ -

Statement of Condition:

Due to a limited number of personnel employed in the accounting area, incompatible work functions are often performed by the same individual and a high degree of trust is necessitated. Specifically, bookkeepers at individual schools perform most accounting functions.

Criteria:

Key steps of internal control should be segregated among different employees.

Effect:

Because compensating steps of internal control are at times completed by the same individual, detection of misappropriation of District assets by employees during the normal course of operations is weakened.

Recommendation:

Job responsibilities within the accounting area should be continually reviewed and, where feasible, duties be switched to provide better segregation of incompatible work functions. An analysis of the risk placed in certain individuals should be continually performed.

Response:

In the area of school bookkeepers, it is not practical or cost effective to hire additional staff to separate accounting functions at all locations. Adequate internal control procedures as defined by local policy and state law are available and enforced in these areas. Fidelity bond coverage was carried on each bookkeeper during the fiscal year.

03-02 Bank Statement Reconciliation

\$ -

Statement of Condition:

Due to utilization of improper methodology related to transfers between accounts and recording of direct payments, bank reconciliations have not been completely reconciled each month.

Criteria:

Proper reconciliation of cash accounts by qualified individuals is an essential element of internal control.

Continued

**DAVIESS COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2003**

Section II - Financial Statement Findings

**Questioned
Costs**

Reportable Conditions, Continued

Effect:

Unreconciled differences in bank reconciliations increases the possibility that bank errors or misappropriations would not be detected in a timely manner.

Recommendation:

We recommend that bank reconciliations from the cash accounts to the MUNIS accounting system be completed in the proper manner by the end of the following month. All differences should be investigated and reconciled monthly. To ensure timely and accurate completion, we recommend that the Assistant Superintendent review and initial the completed reconciliations. During the course of the audit, procedures were changed related to transfers between cash accounts and recording wire transfers. These changes significantly enhance management's ability to perform timely and accurate bank reconciliations.

Response:

Subsequent to year end, revised procedures for cash transfers, recording of wires and voided checks have been implemented. Bank reconciliations are reviewed and completed in a more timely manner. Procedures will be continually reviewed and revised.

Section II - Federal Award Findings

Refer to 03-02 Bank Statement Reconciliation of Financial Statement Findings.

**DAVIESS COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2002**

Status of Prior Year Findings

02-01 Segregation of Duties

Condition:

Due to a limited number of personnel employed in the accounting area, incompatible work functions are often performed by the same individual and a high degree of trust is necessitated. Specifically, bookkeepers at individual schools perform most accounting functions.

Recommendation:

Job responsibilities within the accounting area should be continually reviewed and, where feasible, duties be switched to provide better segregation of incompatible work functions. An analysis of the risk placed in certain individuals should be continually performed.

Current Status:

The District continually reviews the duties of the school bookkeepers and adjusts as possible and appropriate. Internal reviews/audits are performed by the Central Office. Policies and procedures are revised as needed.

02-02 Bank Statement Reconciliation

Condition:

Due to utilization of improper methodology and problems with the electronic information received from the District's financial institution, bank reconciliations have not been properly performed.

Recommendation:

We recommend that bank reconciliations from the cash account to the MUNIS accounting system be completed in the proper manner by the end of the following month. To ensure timely and accurate completion, we recommend that the Assistant Superintendent review and initial the completed reconciliations.

Current Status:

Bank reconciliations were reviewed and completed in a more timely manner during 2003. Though the process was improved, reconciliations for some months did not balance. Management tracked unreconciled differences from month to month. Subsequent to June 30, 2003, management identified and corrected procedures for cash transfers, recording wires and voided checks. Procedures will be continually reviewed and revised.

See current year finding 03-02.

Continued

Mr. Stuart M. Silberman
Superintendent
Daviness County School District
Owensboro, Kentucky

Dear Mr. Silberman:

In planning and performing our audit of the financial statements of Daviness County School District for the year ended June 30, 2003, we considered the District's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated October 20, 2003, contains our report on reportable conditions involving internal control. This letter does not affect our report dated October 20, 2003 on the financial statements of the Daviness County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel. We understand that Central Office personnel schedule meetings with individual school bookkeepers and principals to review these comments and overall bookkeeping procedures. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

October 20, 2003

DAVIESS COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER POINTS

A03-1 Checks

We noted an instance where a check written to a hotel contained only one authorized signature. District policy requires disbursements contain two authorized signatures.

A03-2 New Products

We noted that numerous schools throughout the District now supply agenda books to students. Certain schools provide the books as part of school fees while other schools charge a nominal fee to students. Collectively, the purchases may exceed the \$20,000 bid requirement. We recommend that the purchasing agent determine the total dollars expended in preparation for back to school 2003. Bid procedures should be followed for 2004, if necessary. We acknowledge the difficulty of tracking common expenditures across schools in order to comply with bid requirements.

A03-3 Athletic Bid

The Athletic Bid has both a store discount/catalog component and line item component to the bid. This bid was administered and awarded properly by the Board of Education. Due to the manner by which the schools purchase athletic supplies, we could not readily determine whether the schools received the stated store discount per the bid agreement. We also noted a lack of off-bid support for items the schools purchased from vendors that had not been awarded the bid for some of the line items we tested.



Daviness County Public Schools

"It's About Kids"

1622 Southeastern Parkway
P. O. Box 21510
Owensboro, Kentucky 42304-1510
www.dcps.org

Stuart Silberman
Superintendent
Phone: (270) 852-7000
Fax: (270) 852-7030

CORRECTIVE ACTION PLAN

December 4, 2003

Daviness County Public Schools respectfully submits the following corrective action plan for the year ended June 30, 2003.

BKD, LLP
100 West Third Street
P.O. Box 1824
Owensboro KY 42302-1824

Audit period: July 1, 2002 – June 30, 2003

The findings from the June 30, 2003 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Section II – Financial Statement Findings

Reportable Conditions:

03-01 Segregation of Duties

Statement of Condition:

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Criteria:

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Recommendation:

Job responsibilities within the accounting area should be continually reviewed and, where feasible, duties be switched to provide better segregation of incompatible work functions. An analysis of the risk placed in certain individuals should be continually performed.

Action Taken:

In the area of school bookkeepers, it is not practical or cost effective to hire additional staff to separate accounting functions at all locations. Adequate internal control procedures as defined by local policy and state law are available and enforced in these areas. Fidelity bond coverage was carried on each bookkeeper during the fiscal year.

03-02 Bank Statement Reconciliation**Statement of Condition:**

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Criteria:

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Effect:

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Recommendation:

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Section II – Federal Award Findings

Refer to 03-02 Bank Statement Reconciliation of Financial Statement Findings.

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If you have any questions or concerns regarding this plan, please do not hesitate to contact me.

Sincerely yours,

Tom Shelton
Assistant Superintendent of Finance and Operations